

# Economic Outlook Webinar

## Presented to Northwest Energy Efficiency Council

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Chief Economist & Executive Director

February 5, 2015



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary – November Forecast

- Oil prices are lower than in the September forecast
- Washington personal income is higher than expected in September due to historical data revisions
- Downside risks to the baseline include the potential for slower Chinese, Japanese and European economic growth, possible disruptions to the housing recovery, and geopolitical unrest
- The Washington economy continues to grow modestly, with employment rising in most sectors
- The state revenue forecast for the current biennium and for the 2015-2017 budget period was increased by 0.5% compared to September



# Energy

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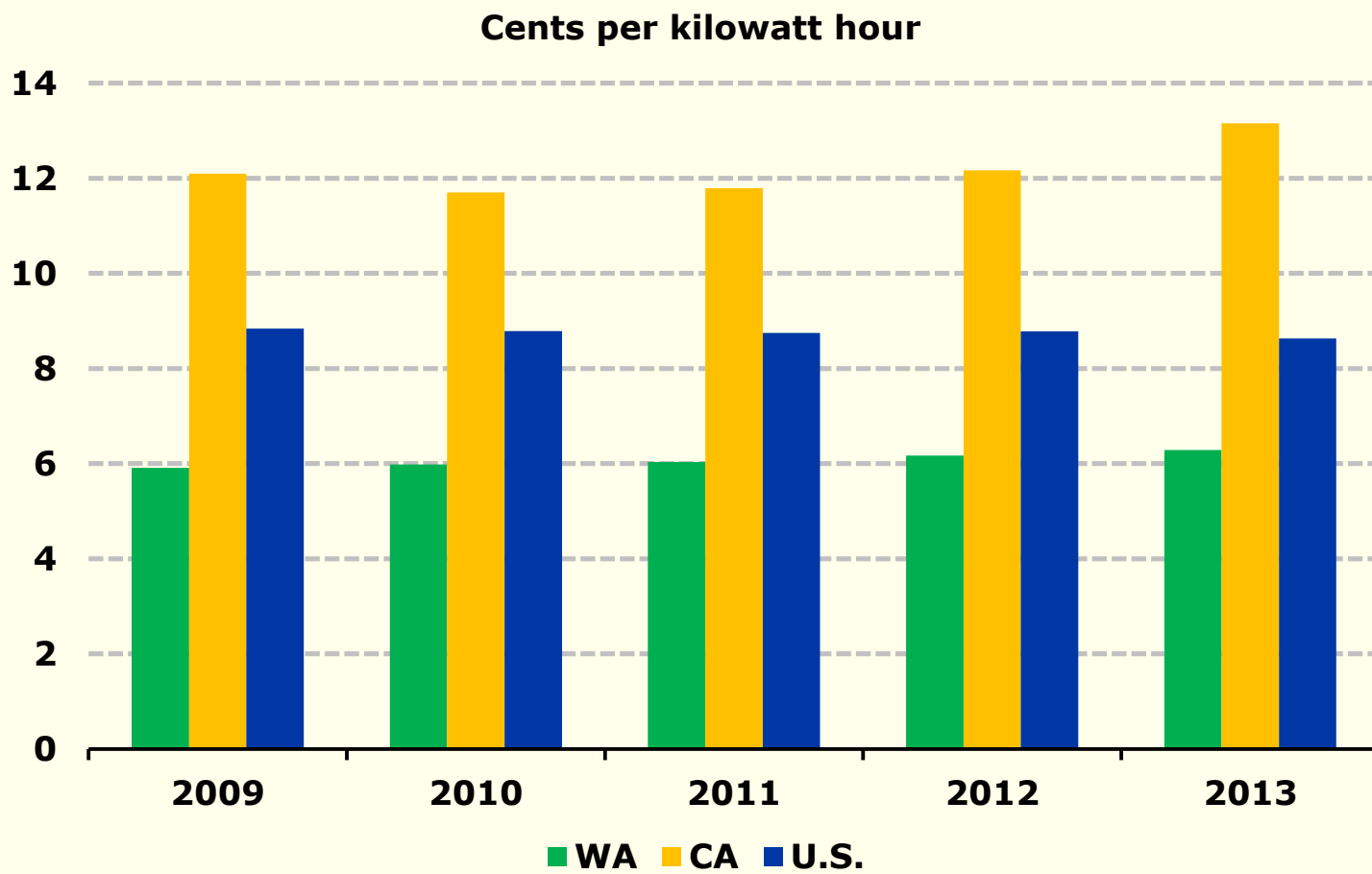
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# Electricity prices (weighted avg. of industrial & commercial rates)

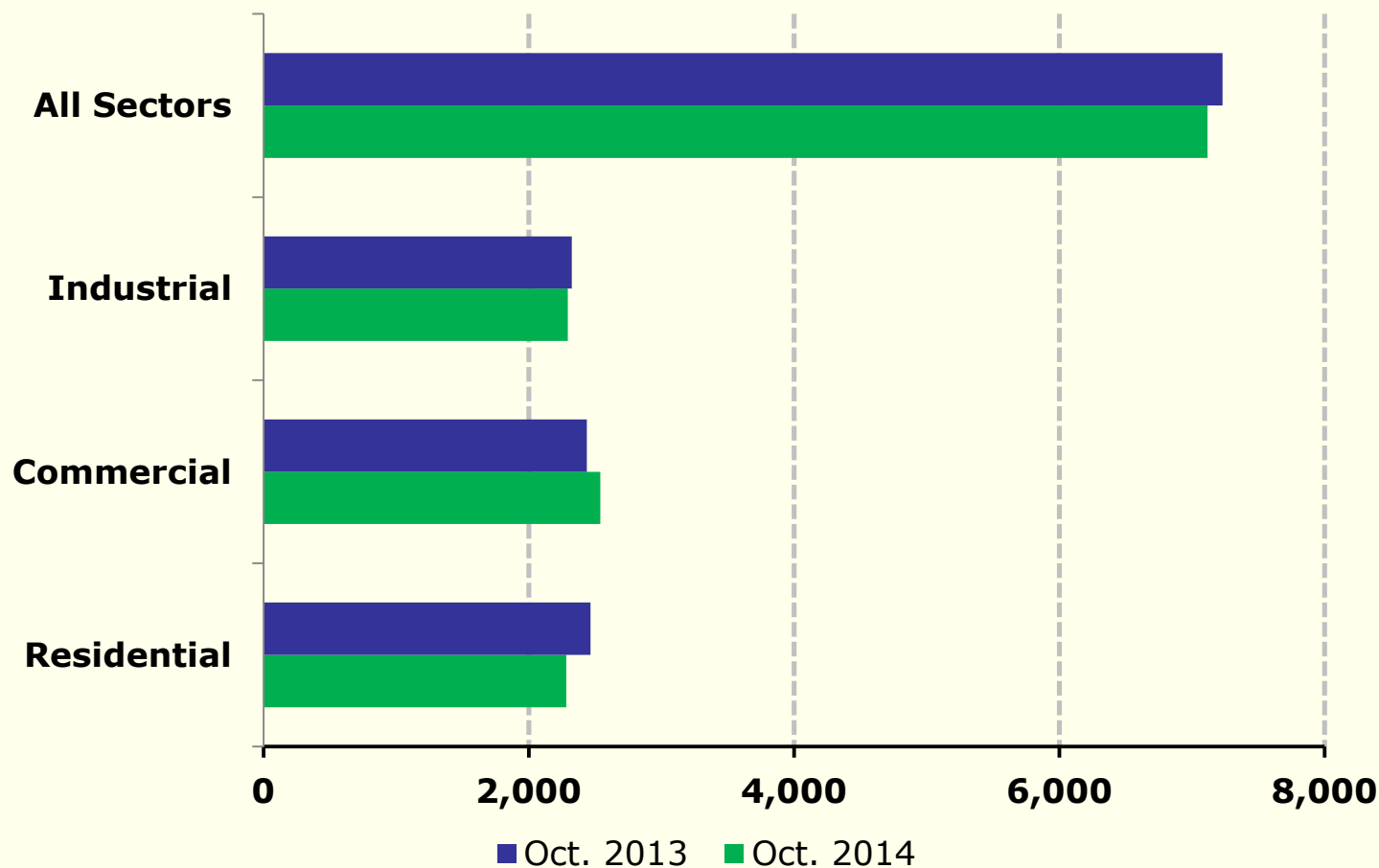


Source: U.S. Dept. of Energy, EIA; data through 2013

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# Washington: retail sales of electricity (millions kilowatt hours)

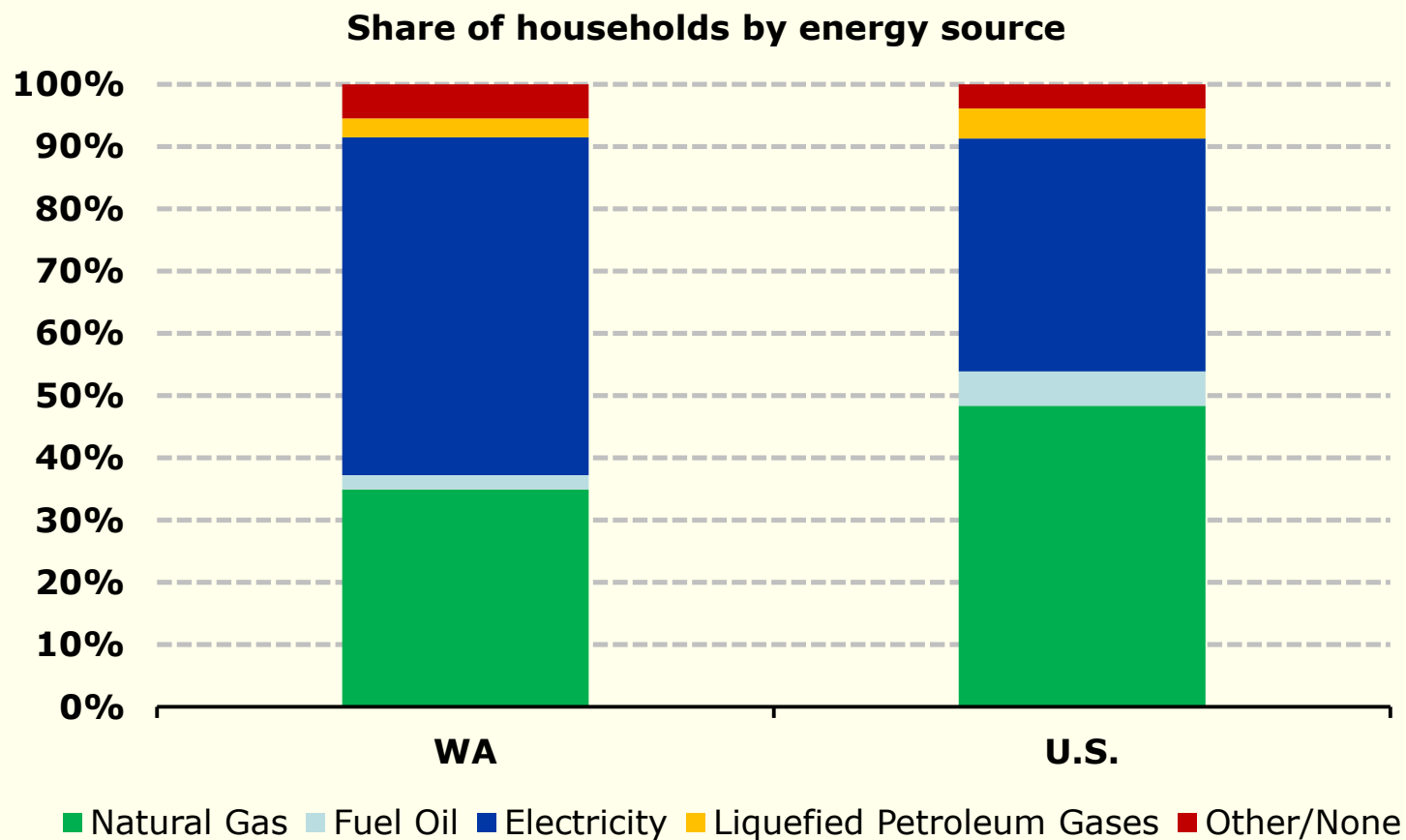


Source: U.S. Dept. of Energy, EIA

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# Energy Sources Used for Home Heating, 2013





# November 2014 Forecast

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# Economic news continues to suggest risks to forecast

- Upside:
  - Declining initial unemployment claims
  - Net monthly employment gains average almost 250,000 in 2014
  - Lower gasoline prices
  - Lower mortgage rates
- Downside:
  - Slowing Chinese, Japanese, European economies
  - Lackluster housing activity
  - Instability in Middle East, Ukraine/Russia





# Unemployment claims are at pre-recession levels



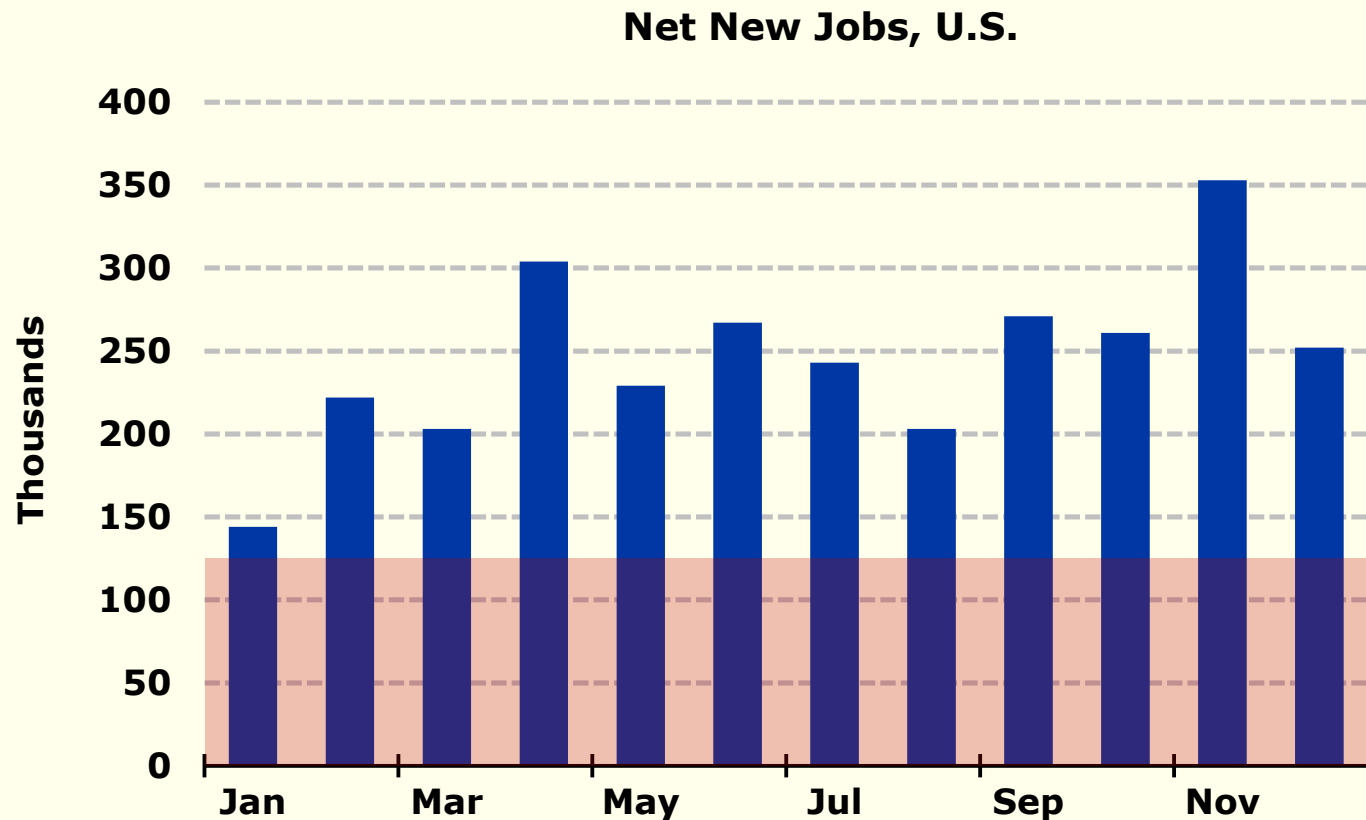
Source: U.S. Dept. of Labor; data through January 24, 2015

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# Monthly job growth has averaged almost 250,000 net new jobs in 2014

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through December 2014

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# Average U.S. wage growth is barely outpacing inflation



Source: U.S. Bureau of Labor Statistics, data through December 2014

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# Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010:  
46%

Dec. 2014:  
32%

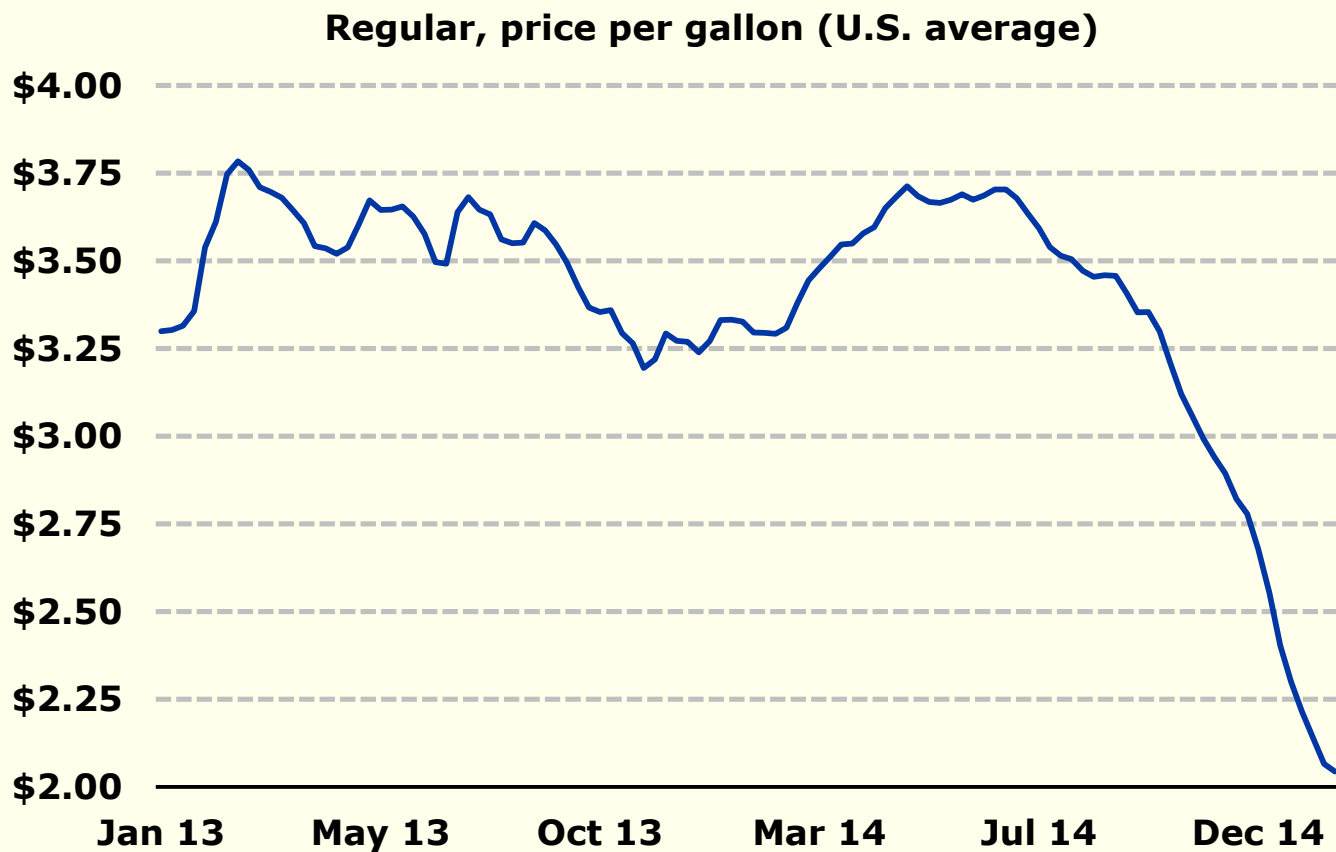


Source: Bureau of Labor Statistics; data through December 2014

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# Gasoline prices are falling

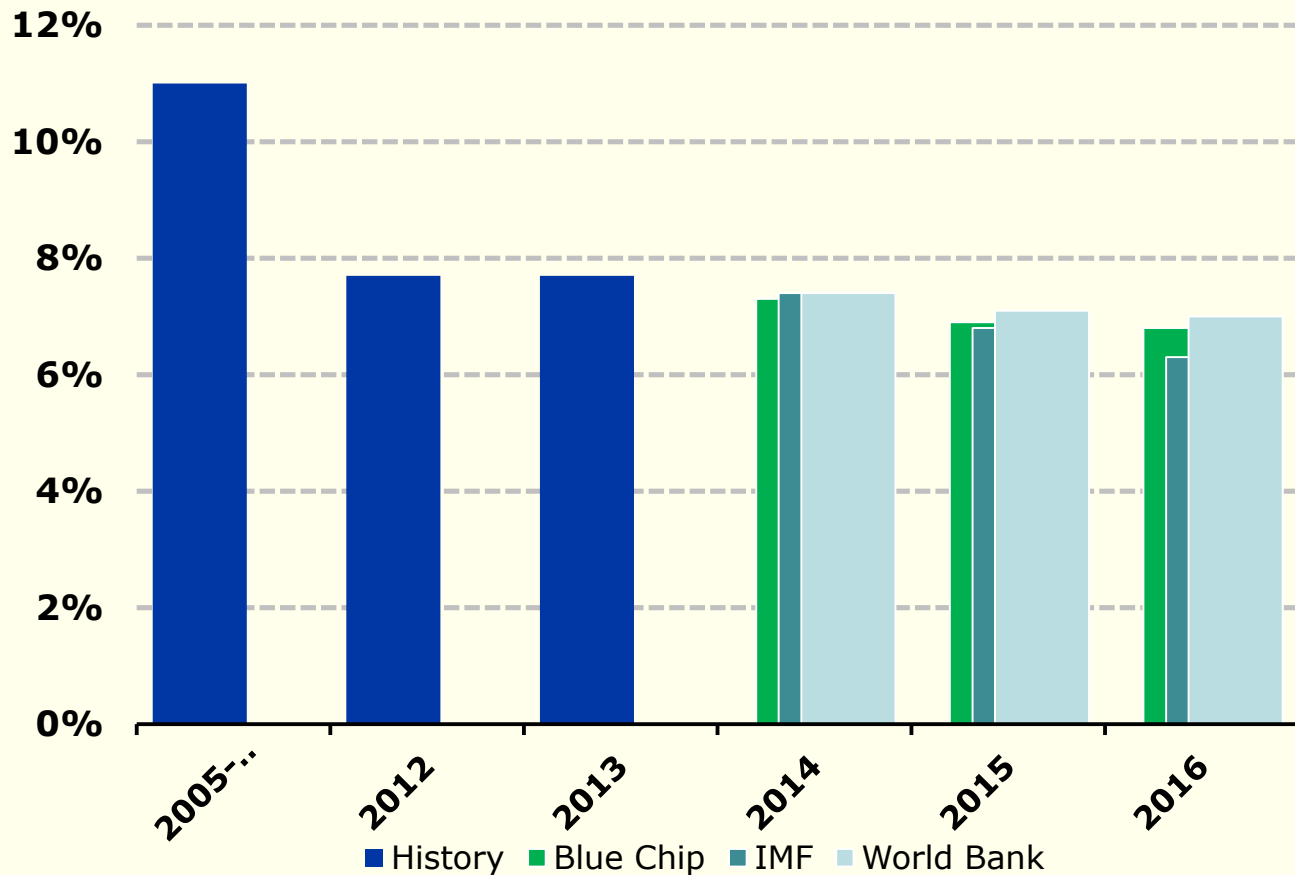


Source: Dept. of Energy, weekly data through January 26, 2015

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# China's 2014 & 2015 GDP growth expected to be below 2013 rate

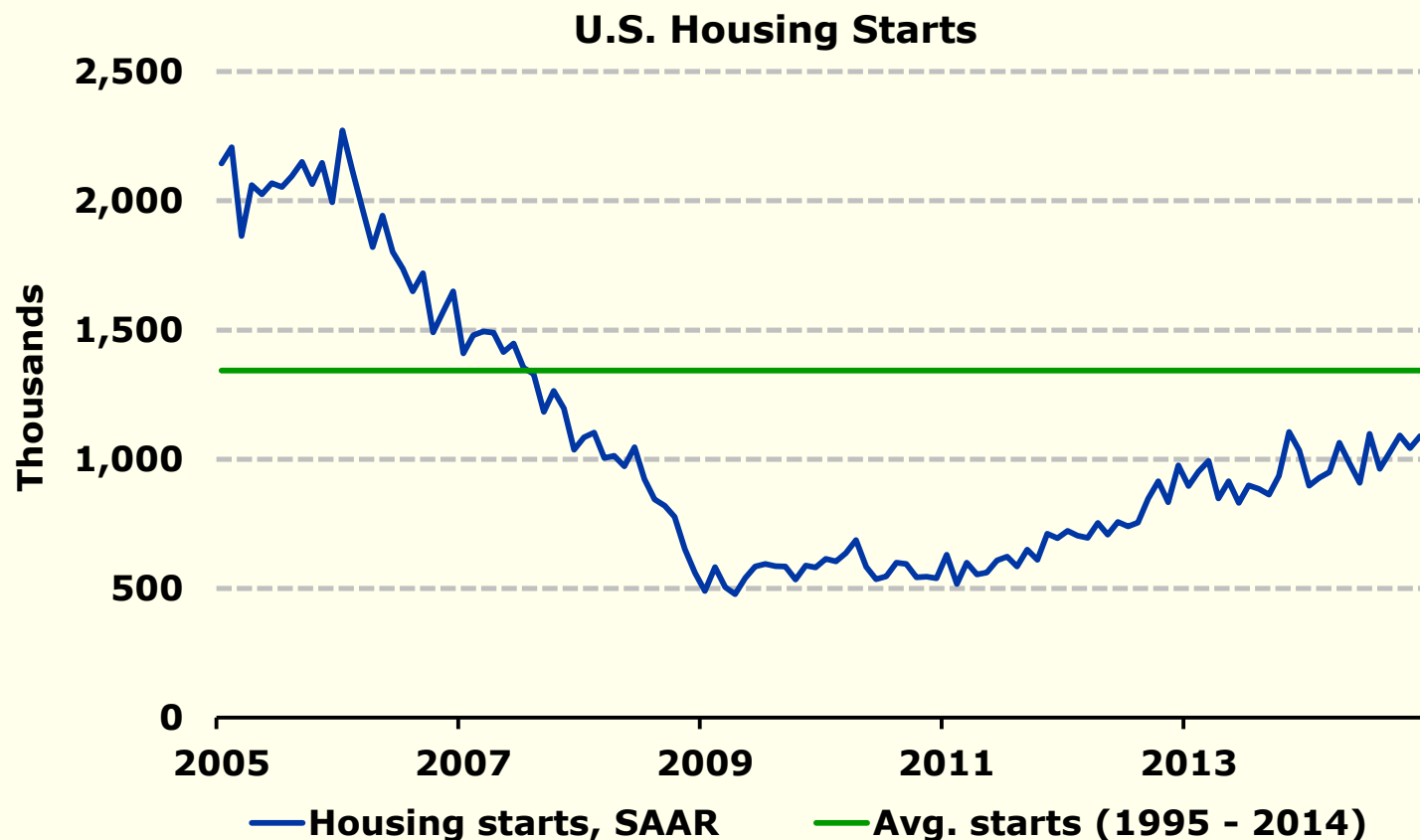


Source: Blue Chip, IMF, World Bank; data and forecasts through January 2015

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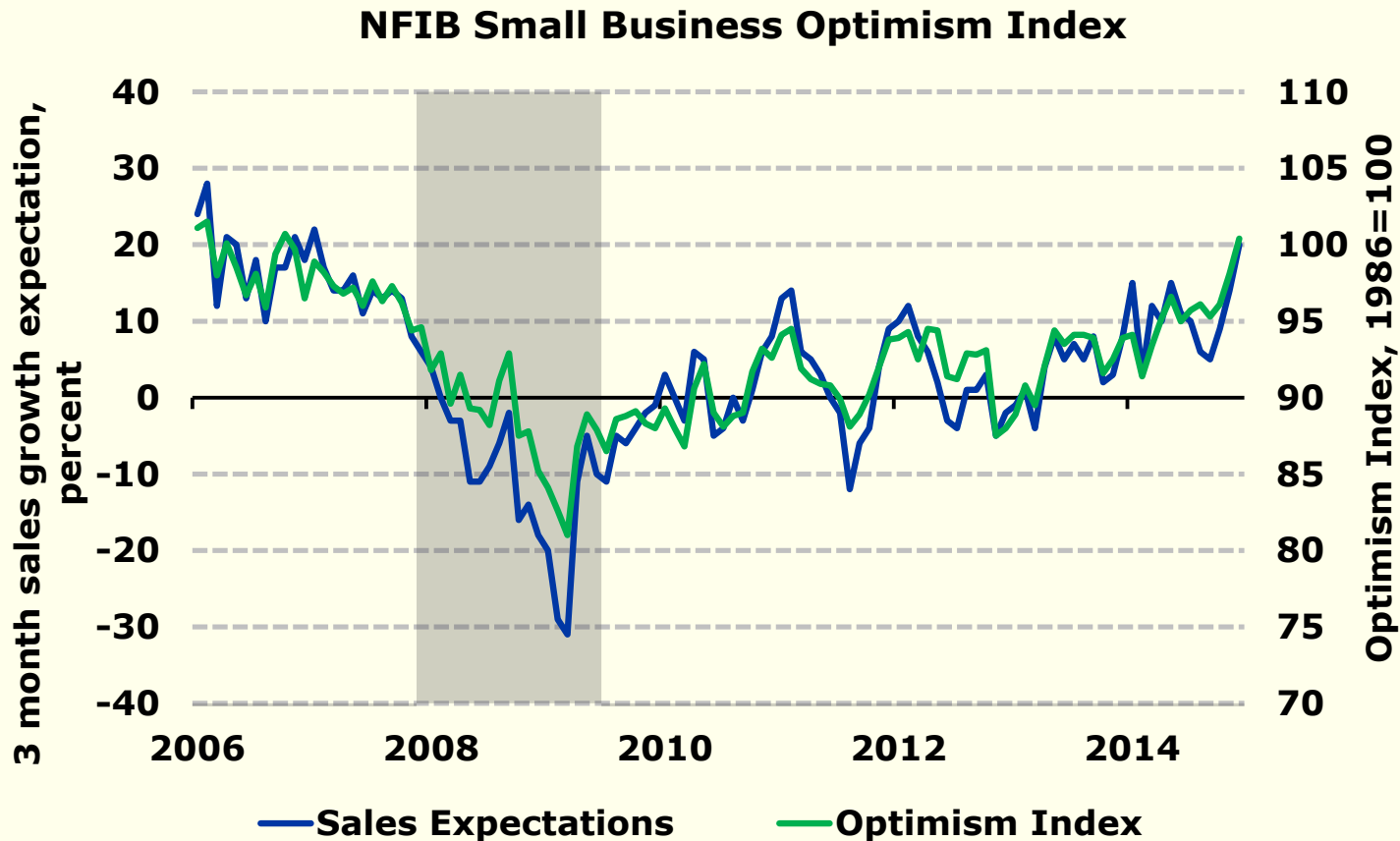


# Housing starts are trending up but remain below historic average





# Small business optimism and sales expectations getting back to pre-recession levels



Source: National Federation of Independent Business; data through December 2014

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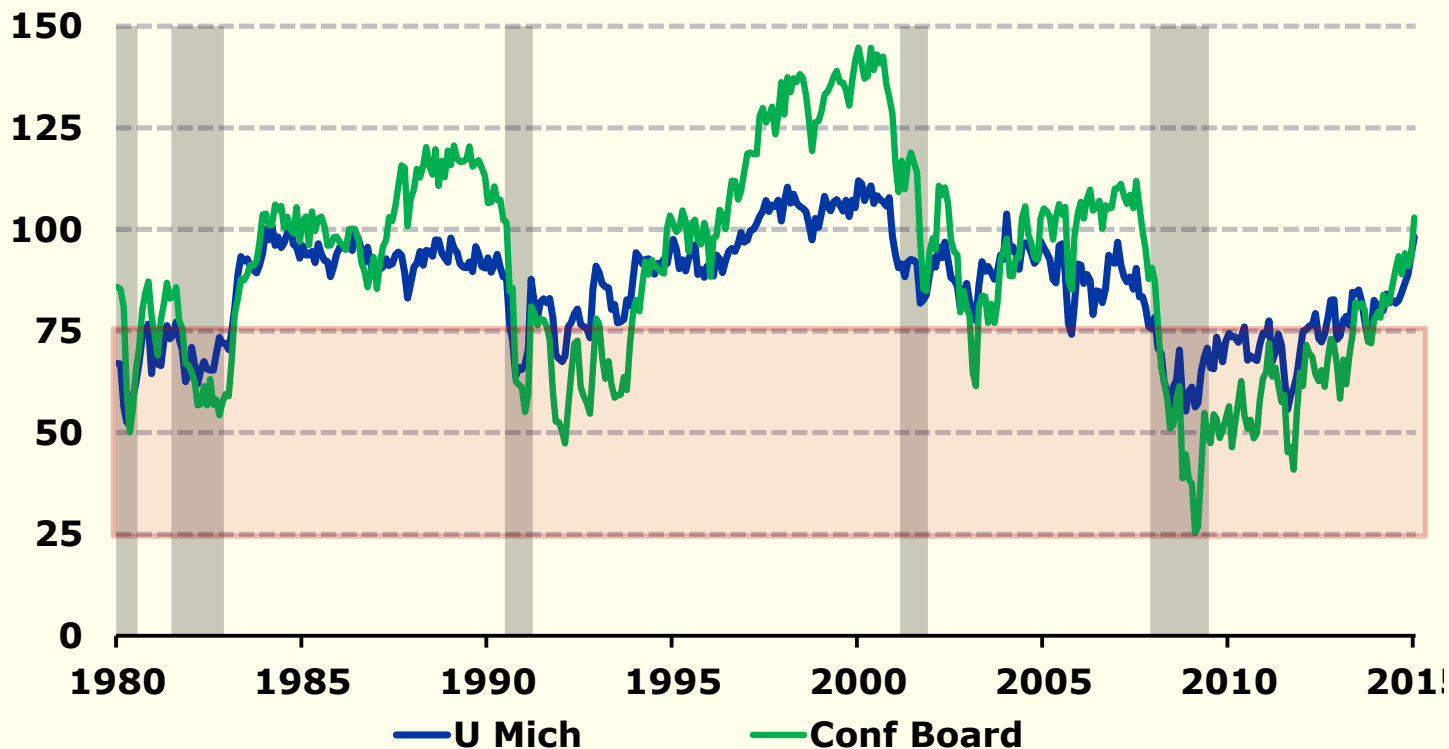


# Consumer confidence is improving

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**

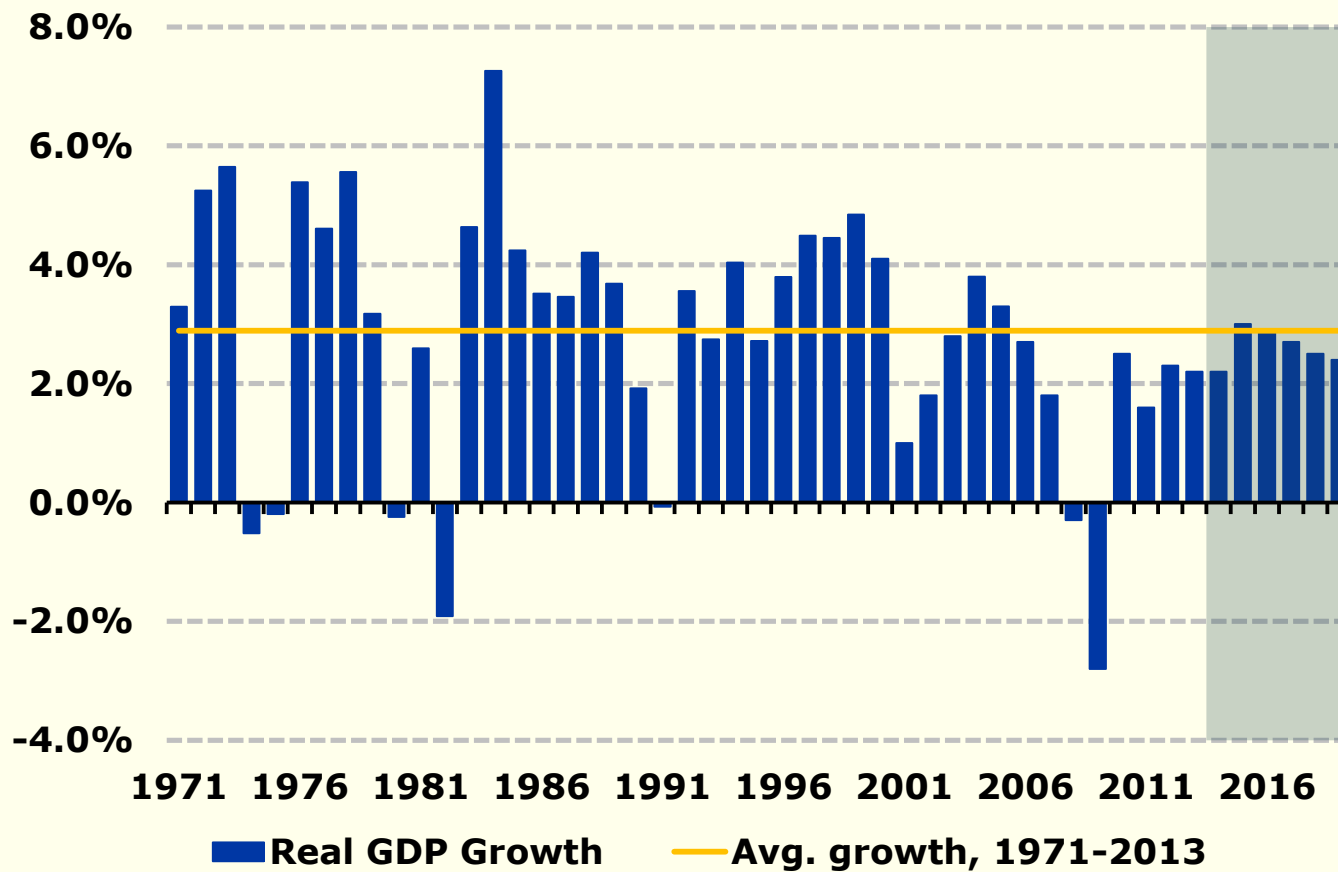


Source: University of Michigan; Conference Board, data through January 2015

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# U.S. economic growth has been slower than in past recoveries

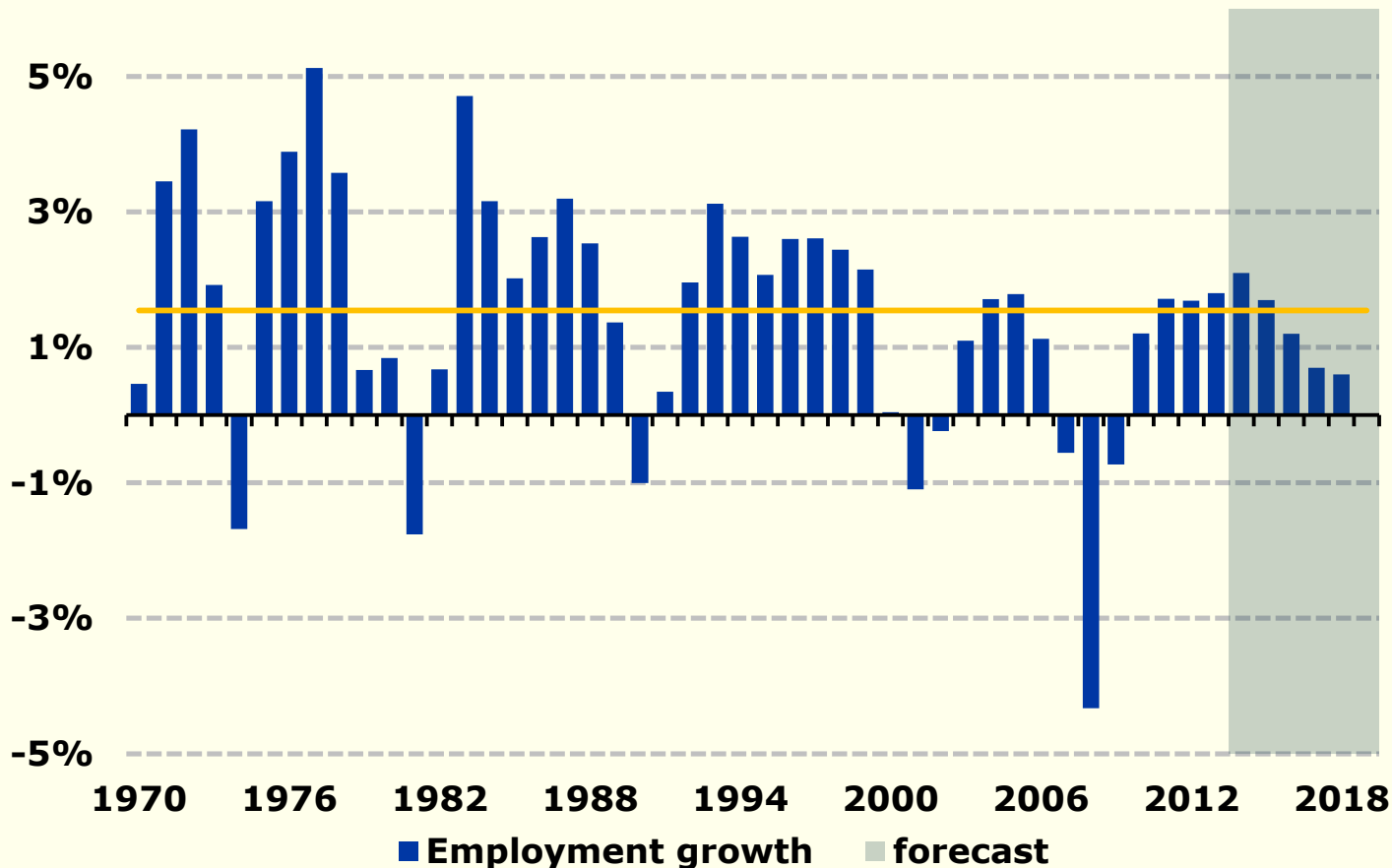


Source: BEA, historical data through 2013; ERFC November forecast 2014-19

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# Demographics and declining unemployment will slow U.S. employment growth

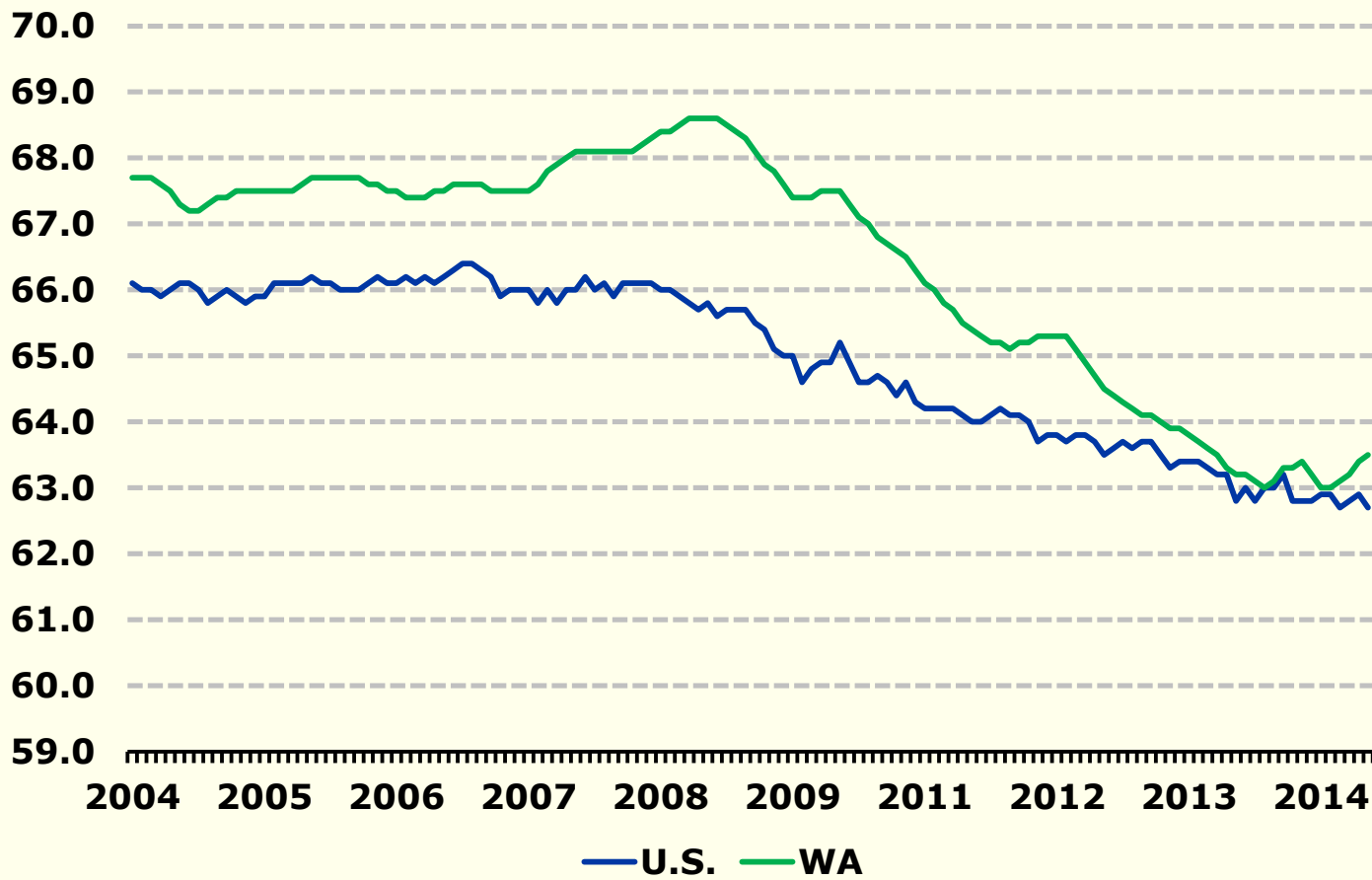


Source: BLS, historical data through 2013; ERFC November forecast 2014-19

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# Labor force participation rates are declining



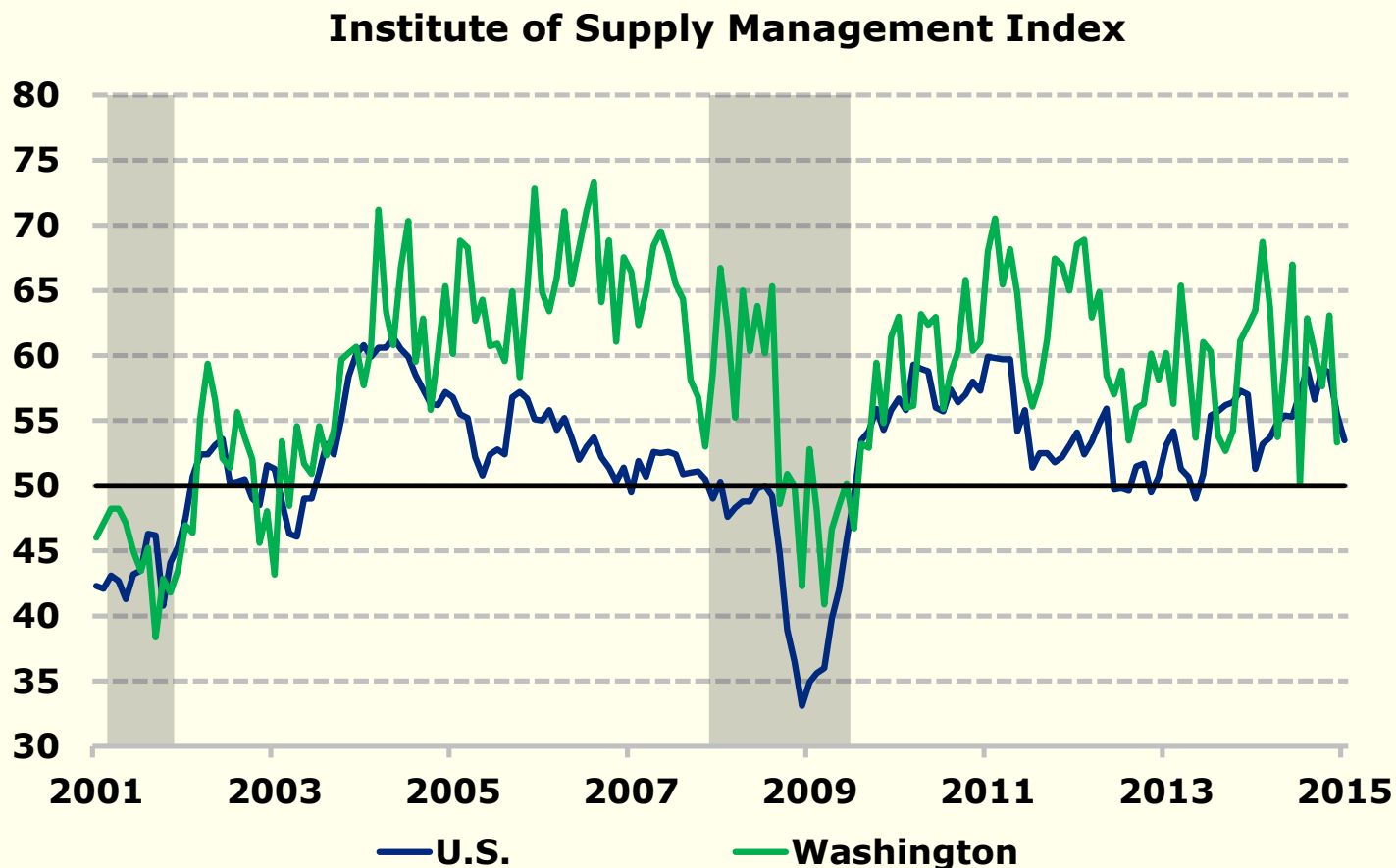
Source: U.S. Bureau of Labor Statistics; SA data through December 2014

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# The manufacturing sector is growing

An index greater than 50, implies growth

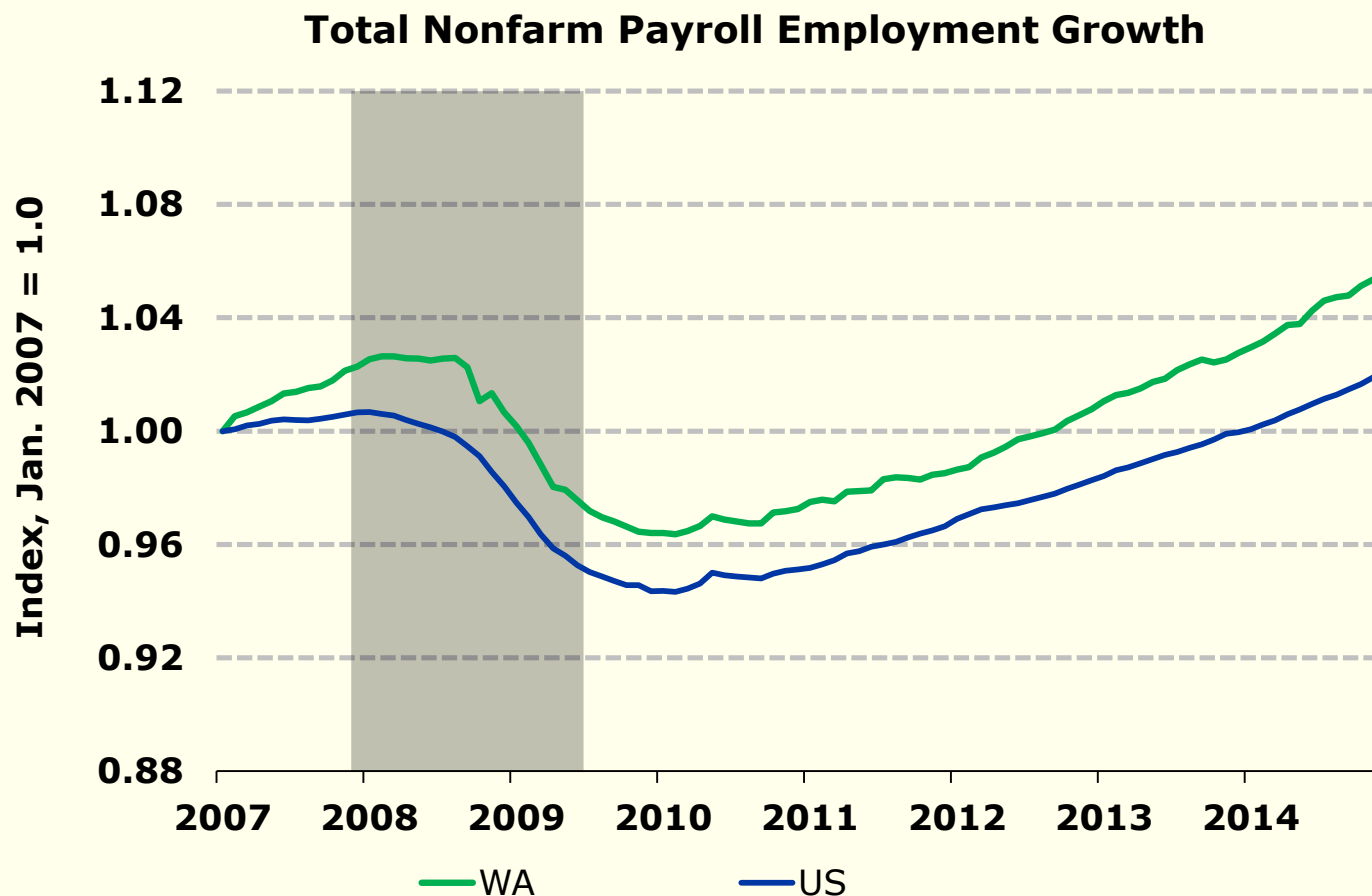


Source: Institute of Supply Management; data through January 2015

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# Employment growth since 2007

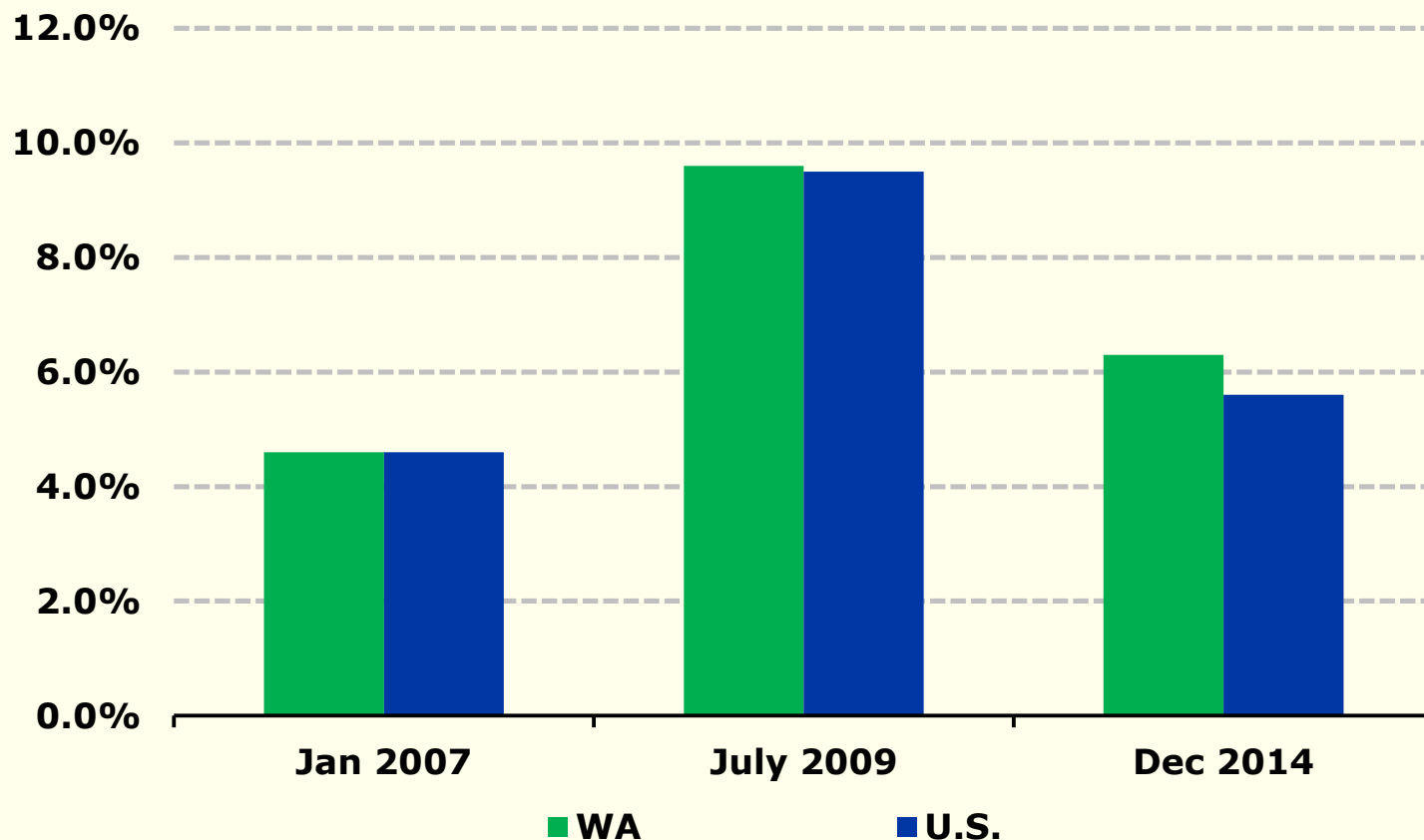


Source: BLS; data through November 2014

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# Unemployment rates are down but still above pre-recession levels



Source: BLS; data through November 2014

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# Change in employment 2010-2014: distribution by industry

2010 – 2014  
employment  
growth:

US: 6.6%  
(8.6 M jobs)

WA: 8.3%  
(236,000  
jobs)

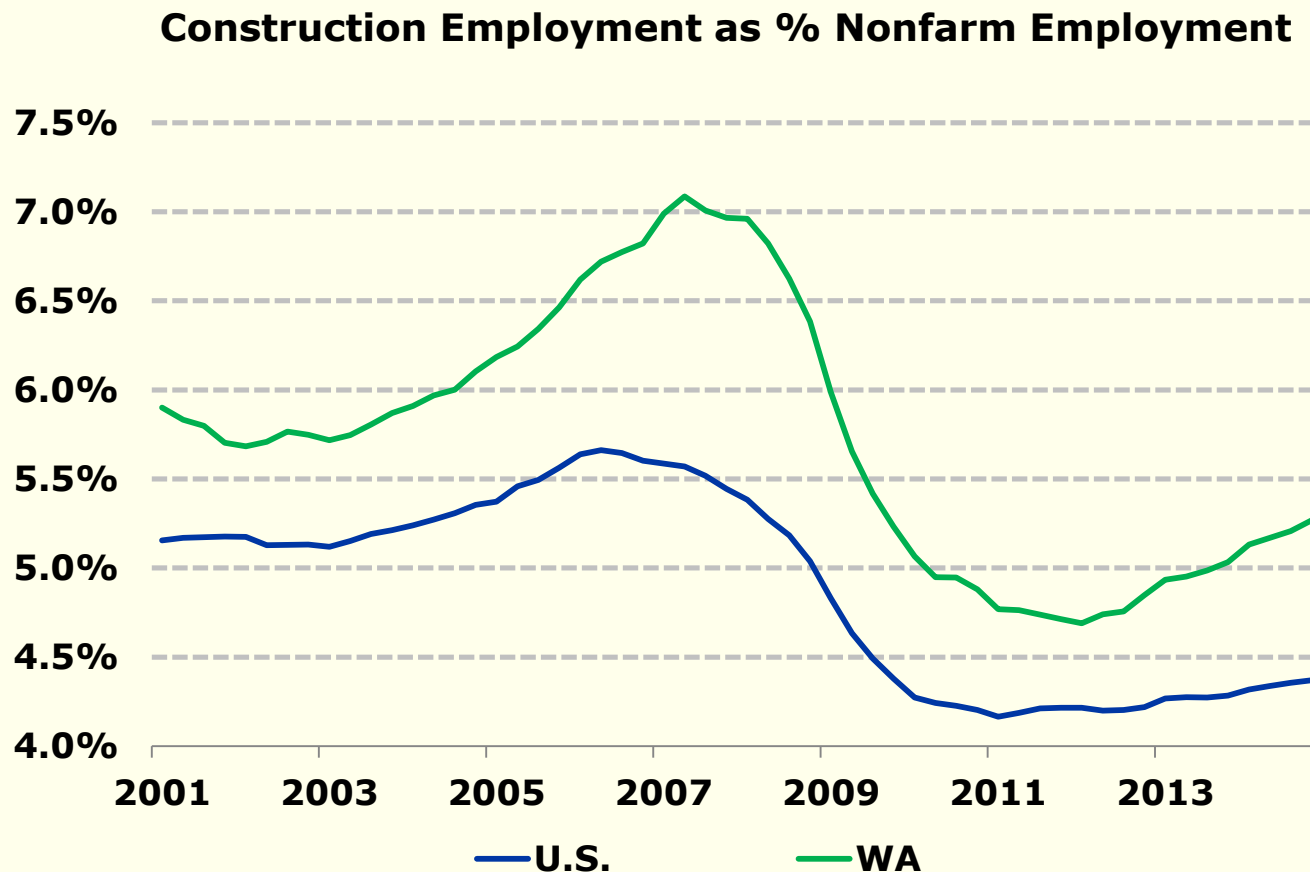
	<b>U.S.</b>	<b>WA</b>
<b>Retail trade</b>	11%	14%
<b>Leisure &amp; hospitality</b>	18%	13%
<b>Manufacturing</b>	7%	13%
<b>Prof/tech services</b>	11%	8%
<b>Admin/support</b>	15%	8%
<b>Health care</b>	11%	8%
<b>Construction</b>	6%	8%
<b>Financial activities</b>	3%	5%
<b>Wholesale trade</b>	5%	5%
<b>Transp/warehousing</b>	5%	3%
<b>Information</b>	0%	3%
<b>Other</b>	8%	11%

Source: BLS, WA Employment Security Dept.





# Construction employment share larger in Washington than U.S.

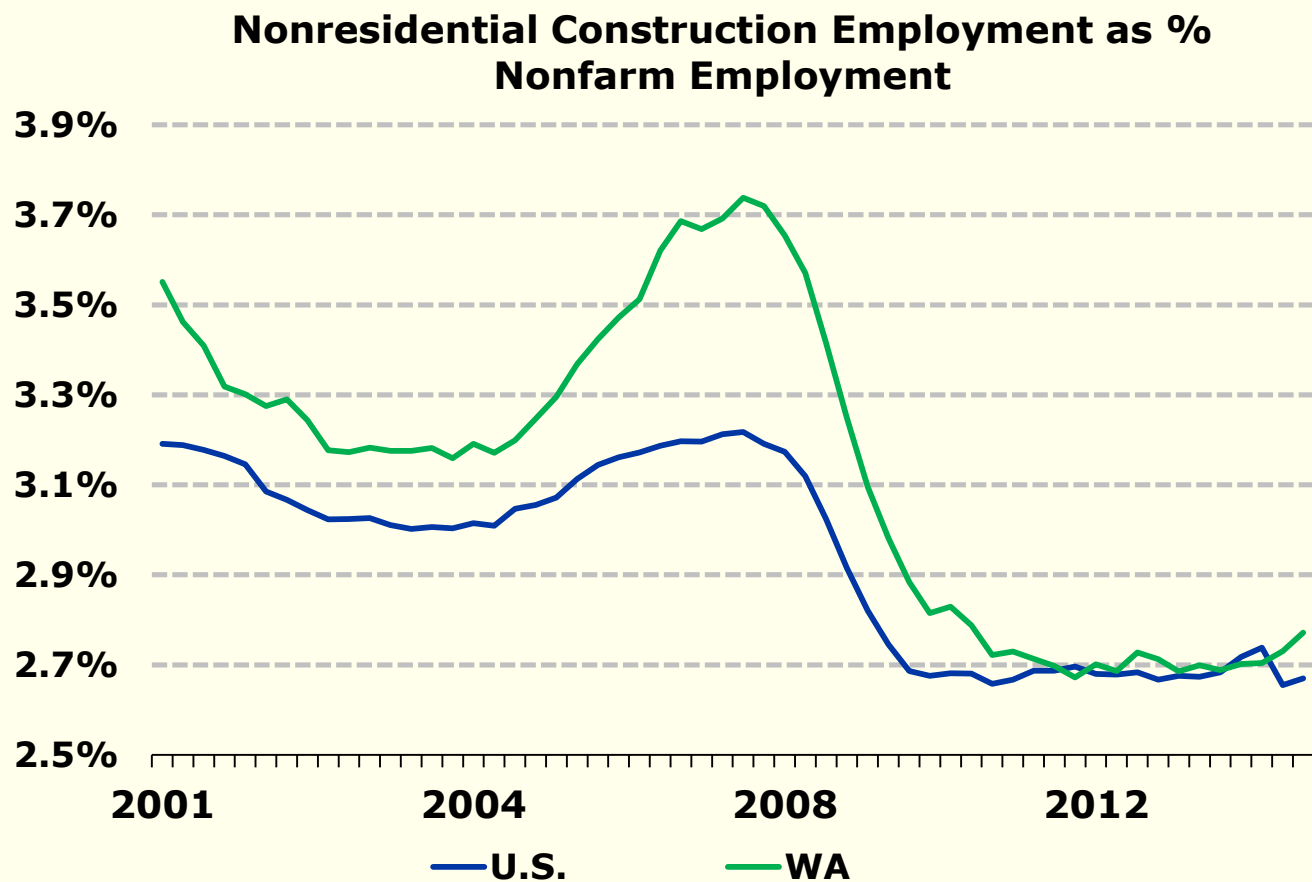


Sources: U.S. Dept. of Labor, BLS; ERFC; data through fourth quarter 2014

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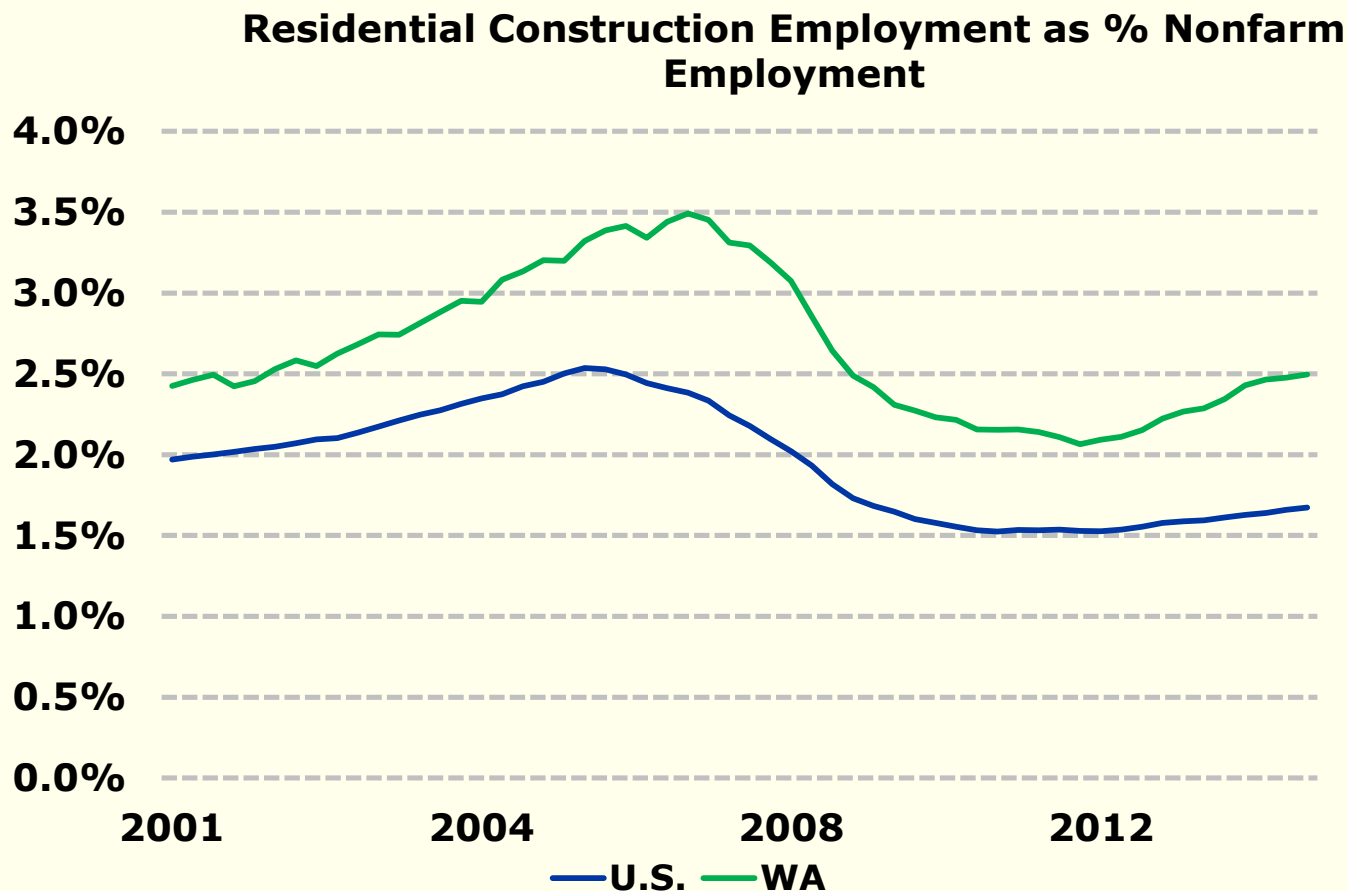
# Nonresidential employment shares have converged



Sources: U.S. Dept. of Labor, BLS; ERFC; data through fourth quarter 2014



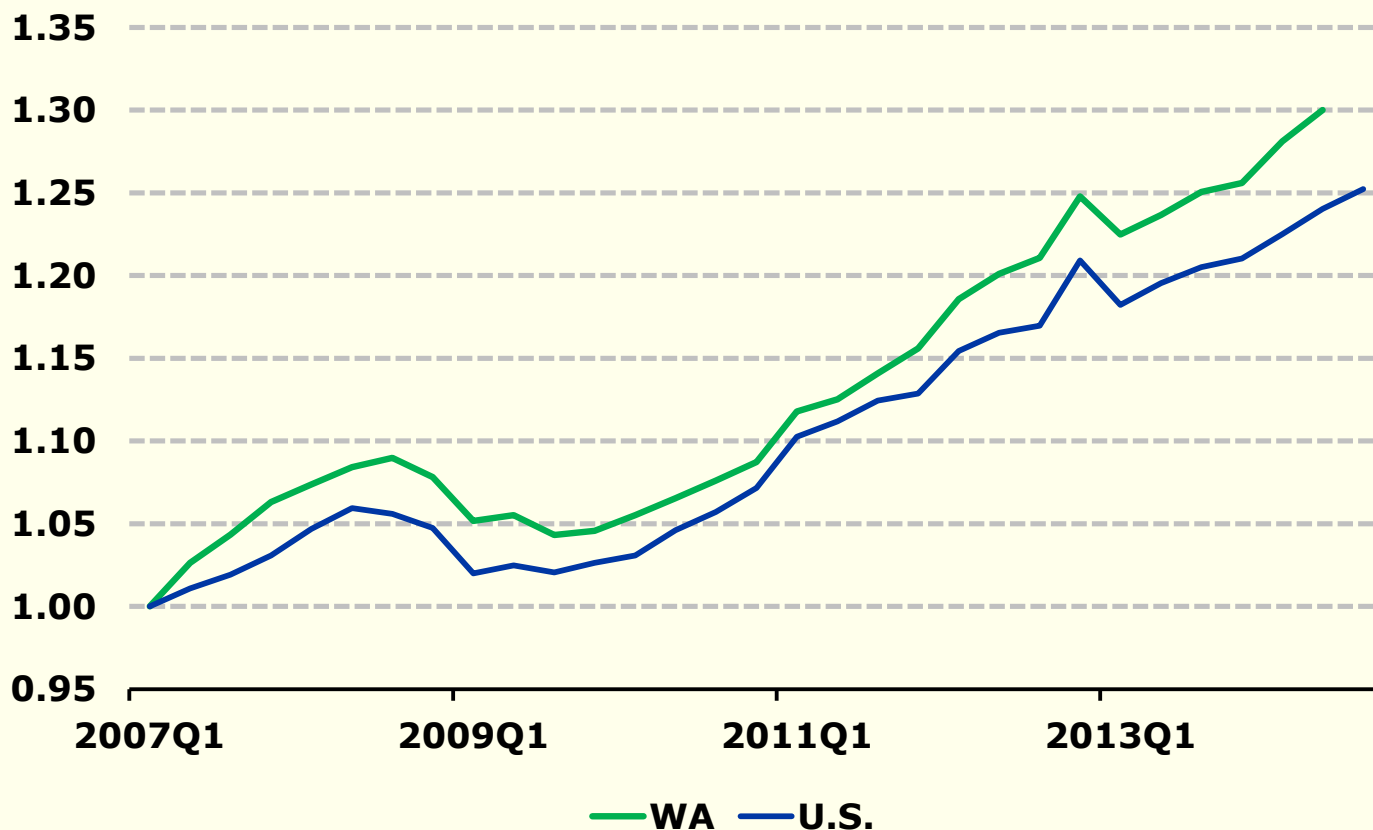
# Residential employment shares consistently larger in WA



Sources: U.S. Dept. of Labor, BLS; ERFC; data through fourth quarter 2014



# Personal income growth since 2007

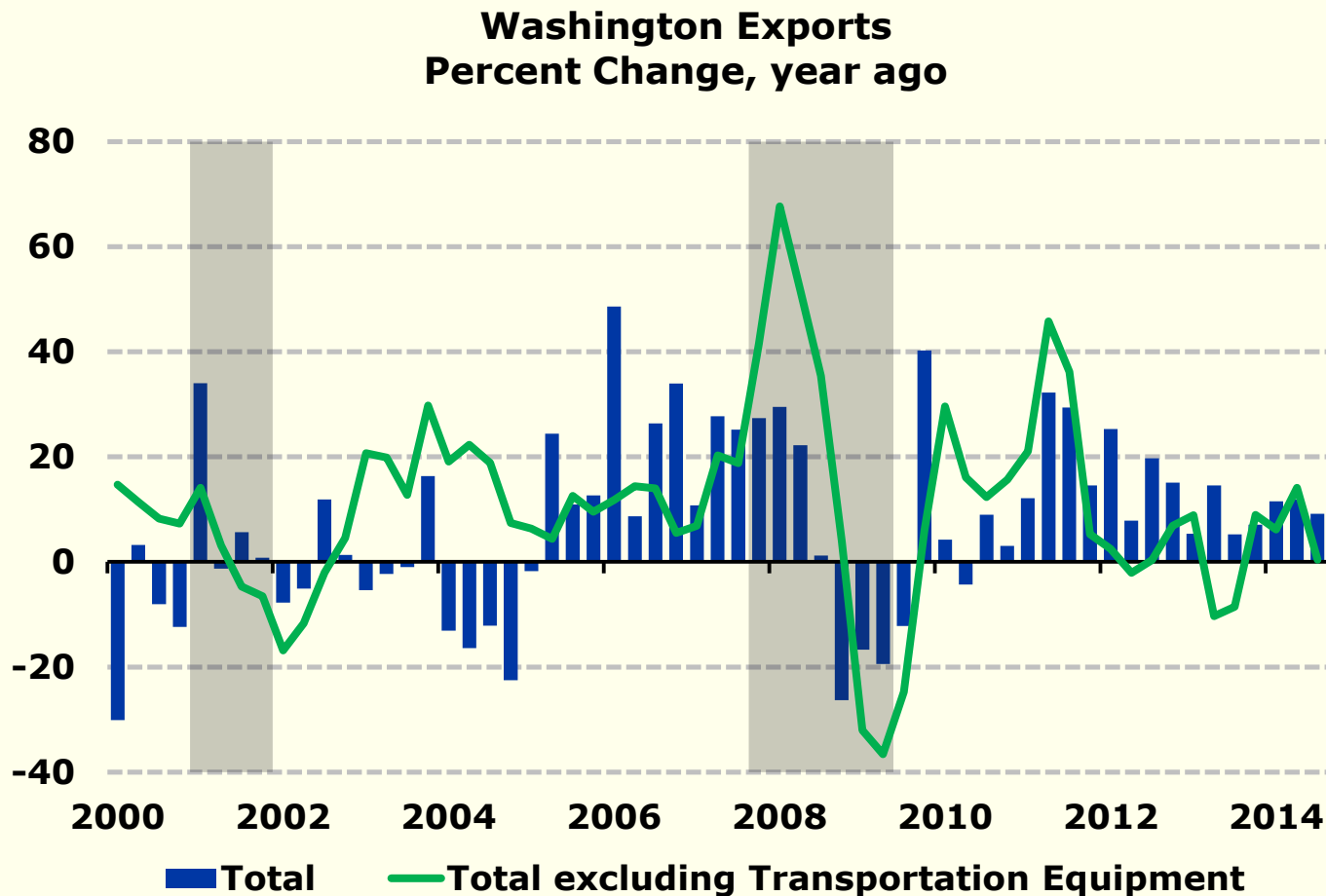


Source: BEA; data through 2014 Q3

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# Non-transportation equipment export growth remains weak

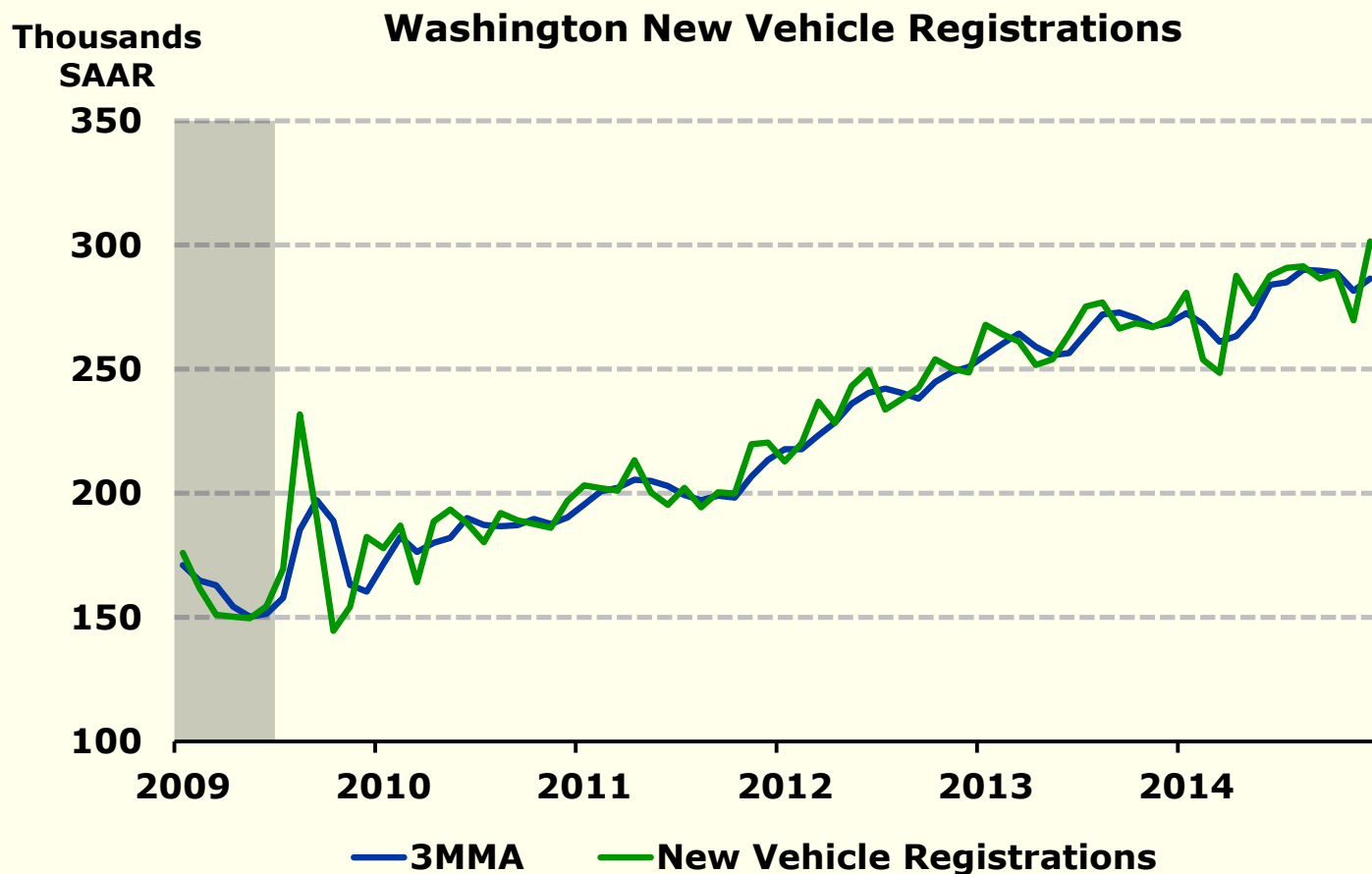


Source: Wiser Trade Data; through 2014Q3

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# Washington new vehicle registrations hit a post-recession high in December

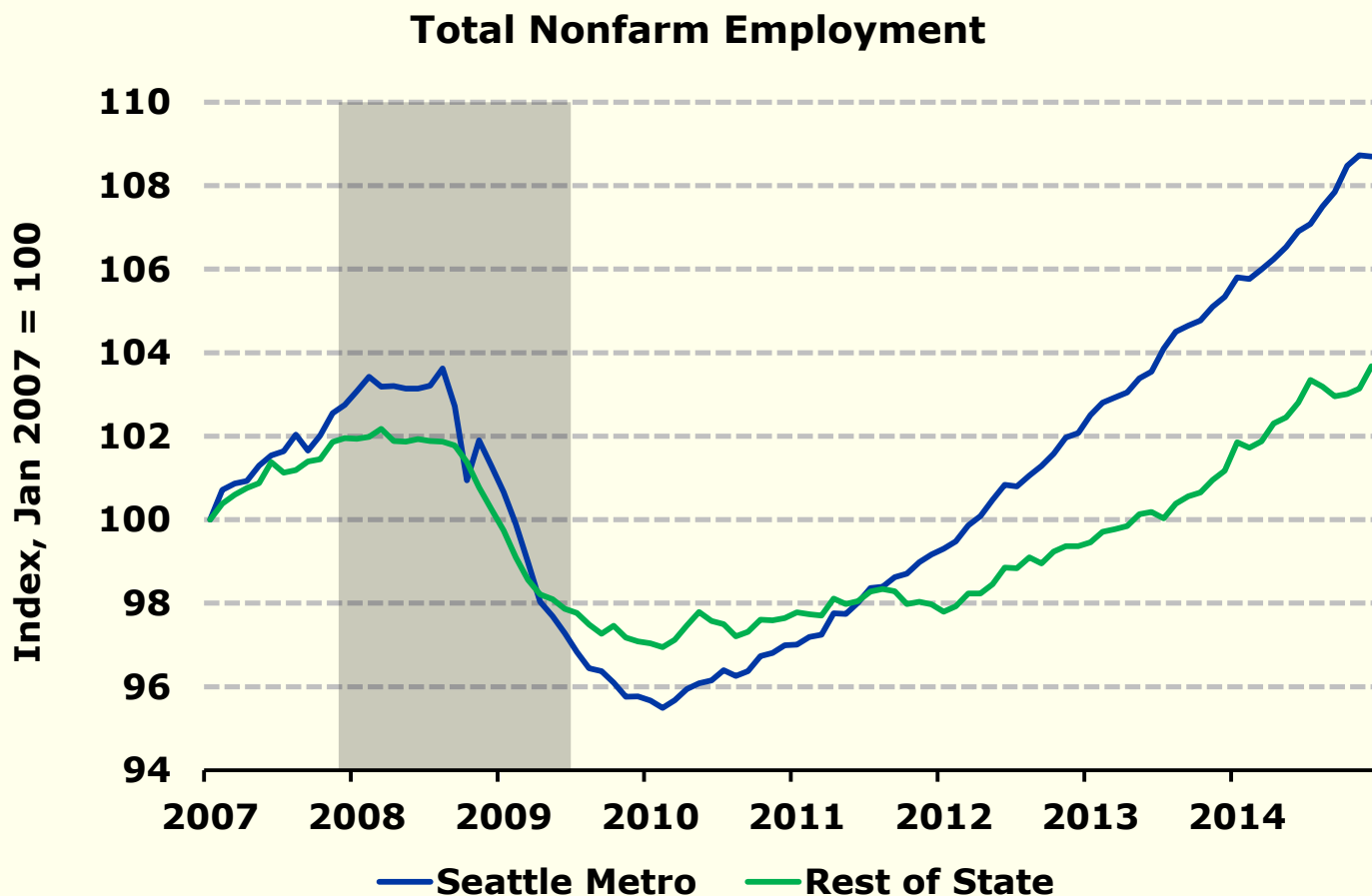


Source: Dept. of Licensing, ERFC; data through December 2014

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# Seattle area employment is growing much faster than the rest of the state



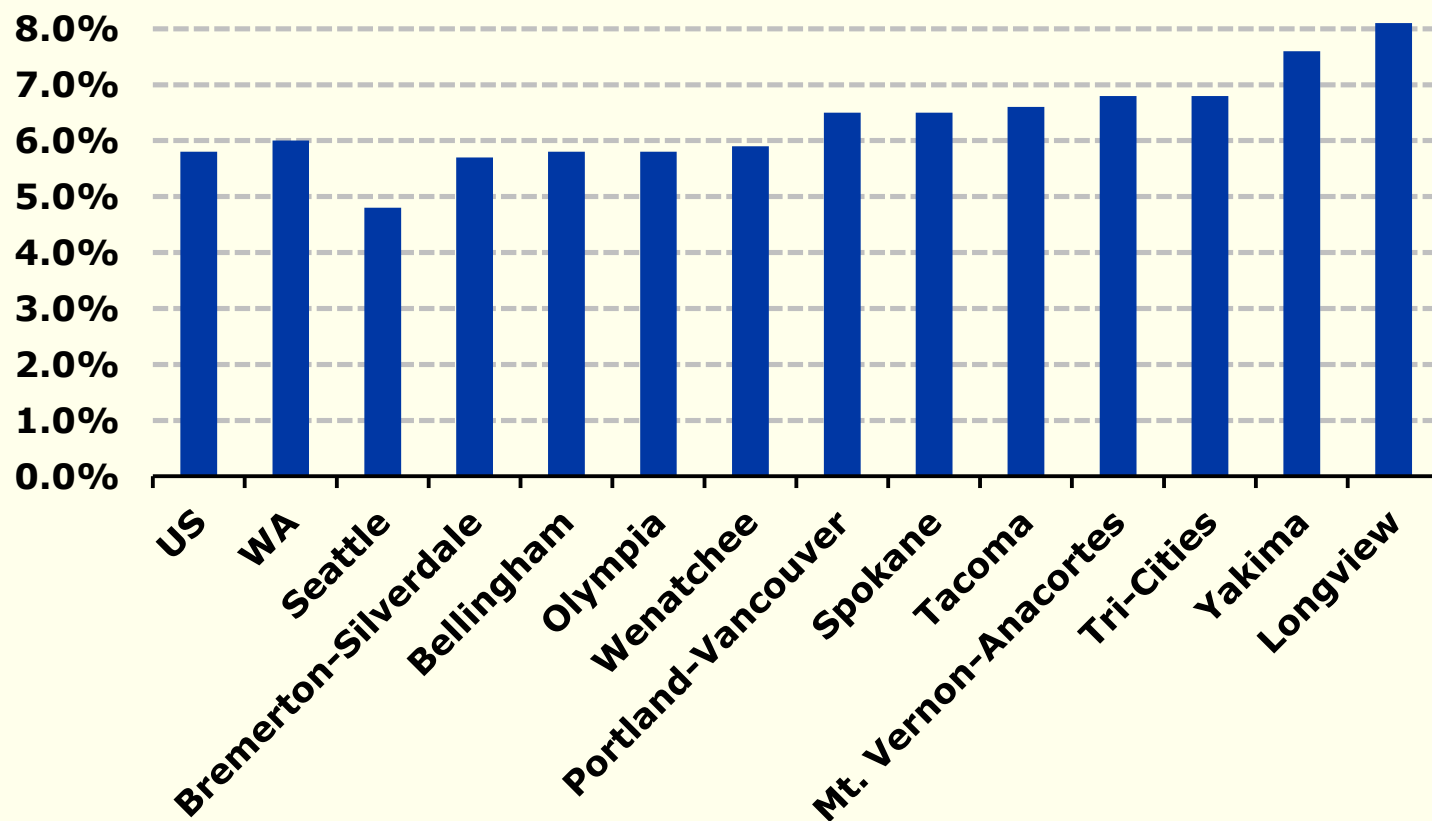
Source: Employment Security Department, ERFC; data through December 2014

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# Seattle continues to have the lowest unemployment rate among state metropolitan areas

**November unemployment rate (SA)**



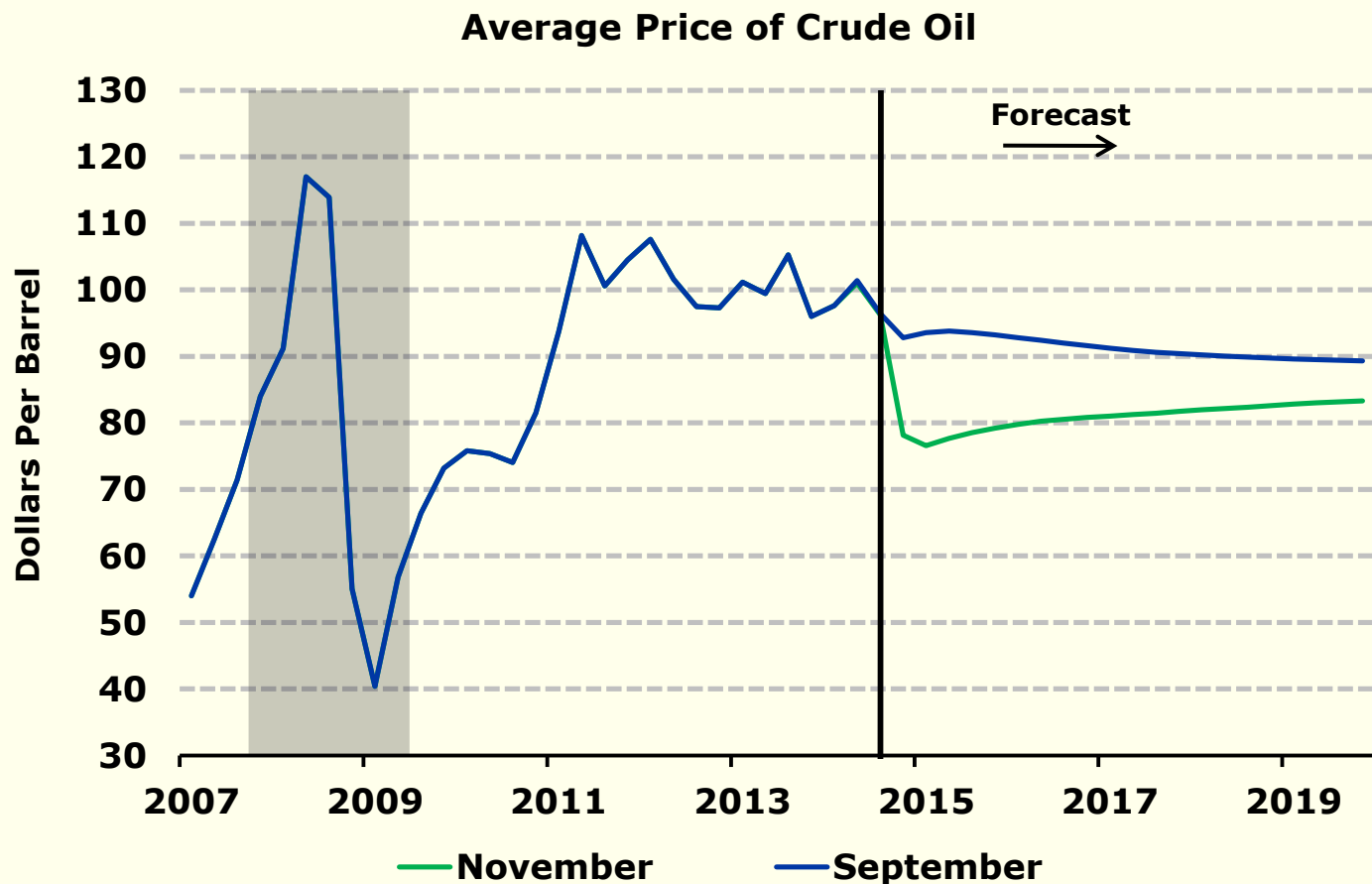
Source: Employment Security Dept., November 2014 data





# Oil prices lower in the near term but no longer decline throughout the forecast

Oil prices have fallen even further since our November forecast



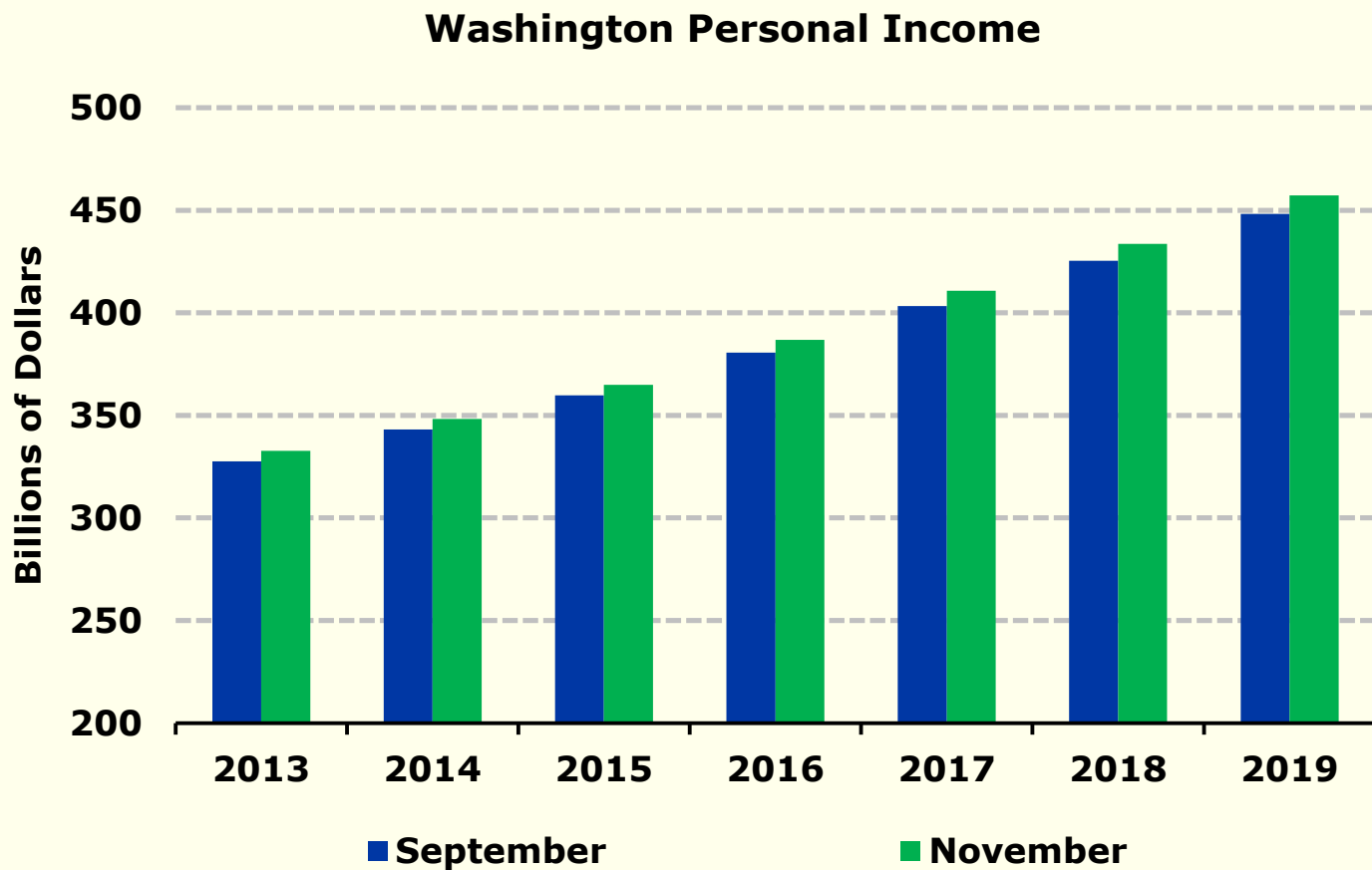
Source: DOE, ERFC November 2014 forecast; historical data through 2014Q3

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# Washington personal income forecast revised up

In part, the higher forecast reflects upward revisions to historic data



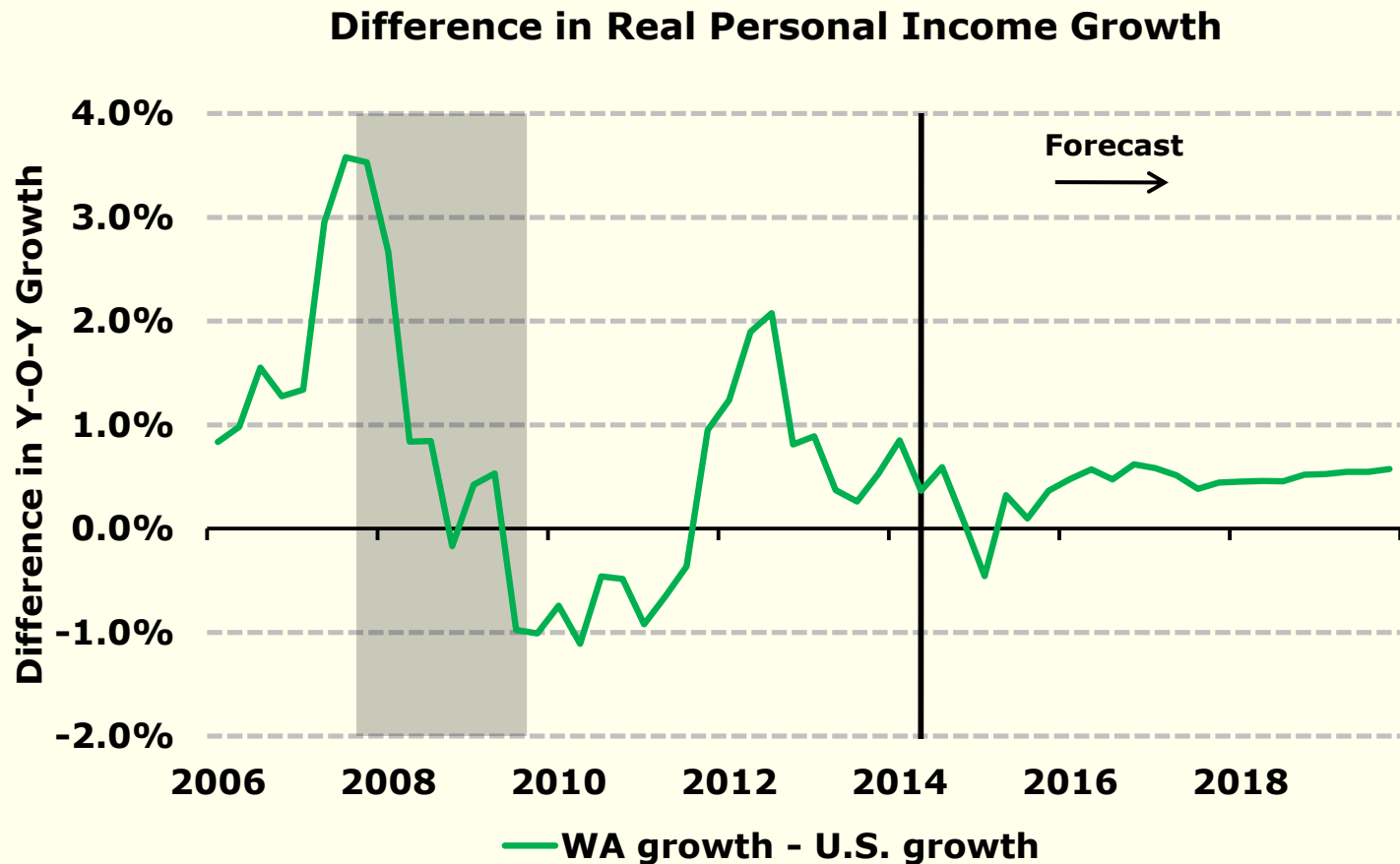
Source: ERFC November 2014 forecast; historical data through 2013

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# State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



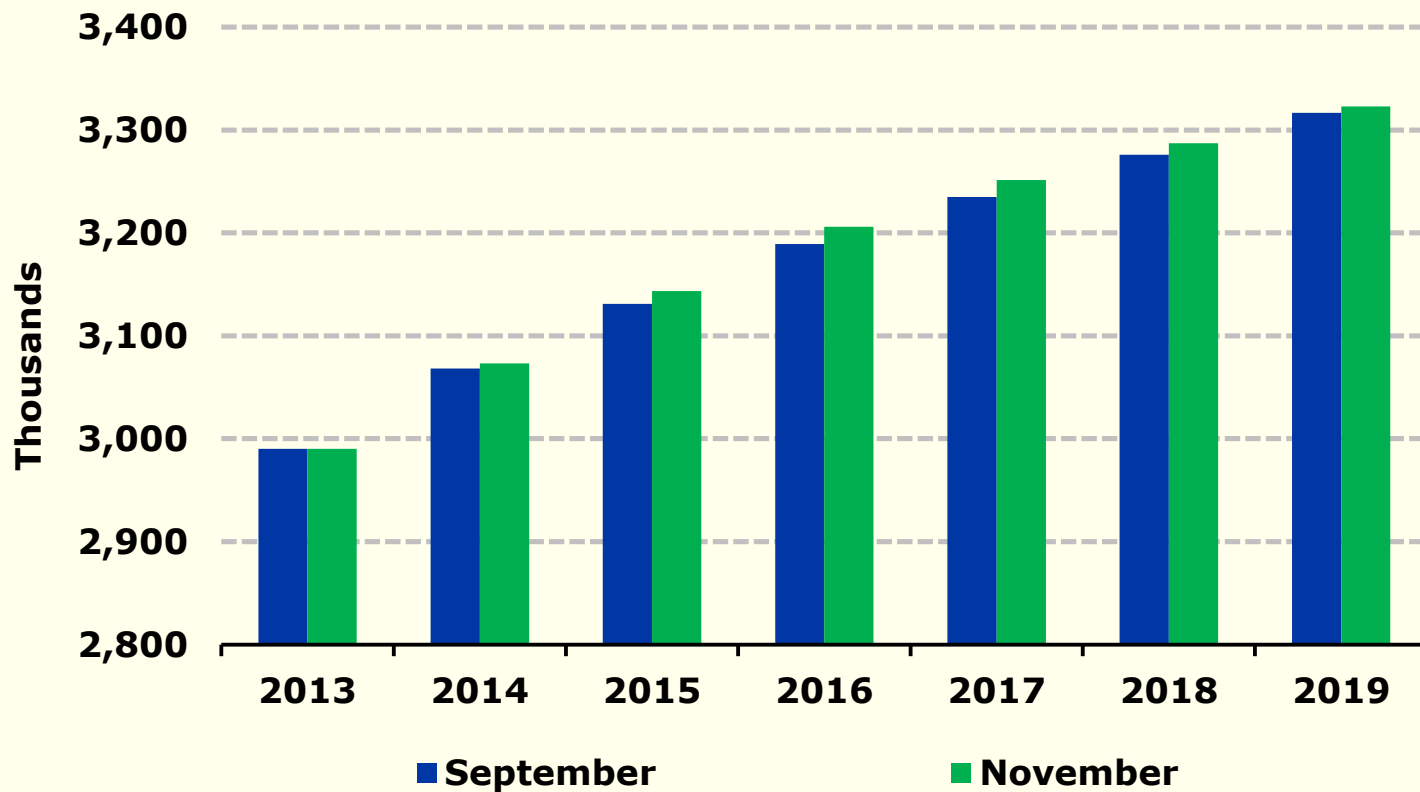
Source: ERFC November 2014 forecast; historical data through 2014Q2

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# Washington employment forecast revised up

**Washington Nonfarm Payroll Employment**

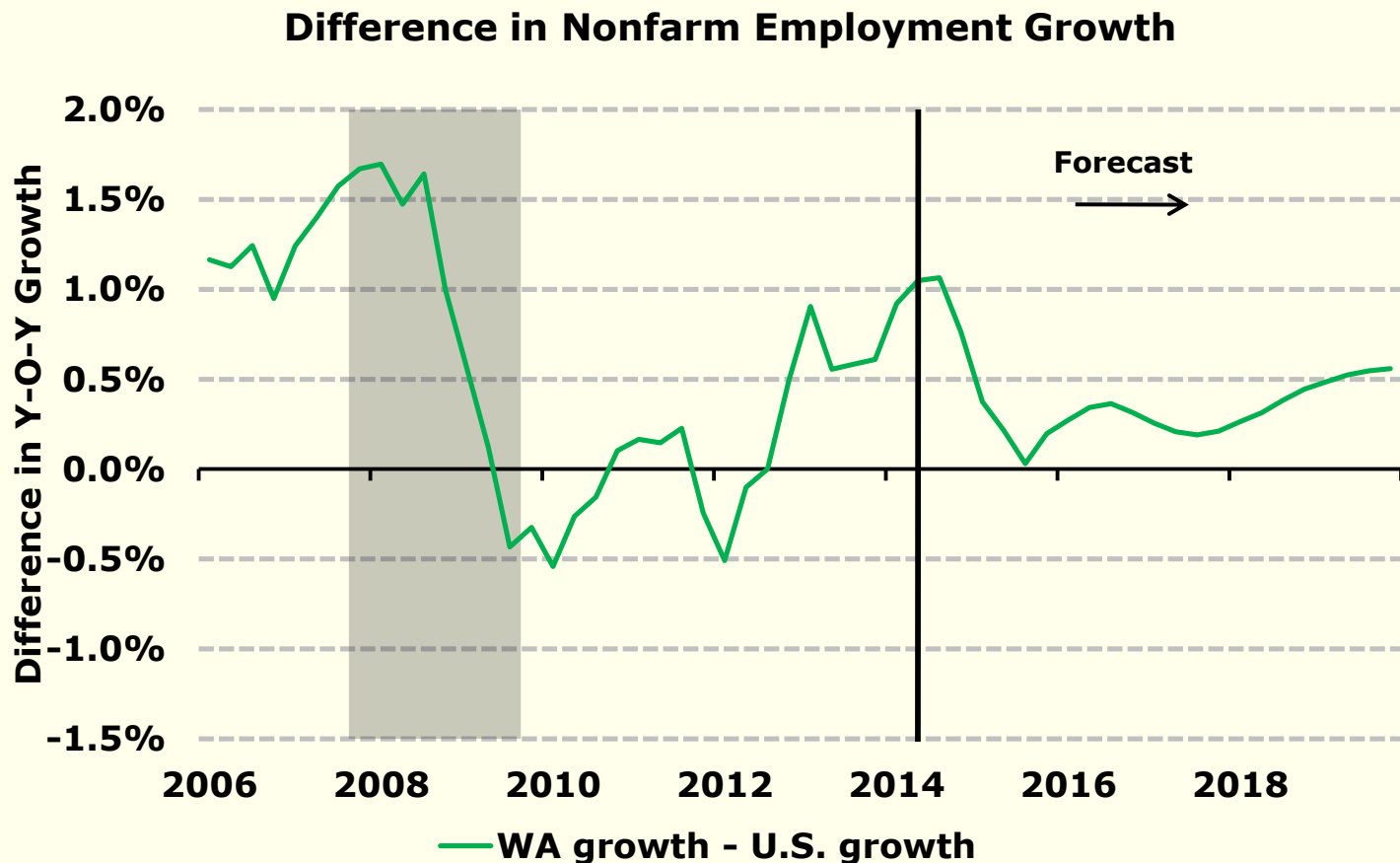


Source: ERFC November 2014 forecast; historical data through 2013

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# Washington employment will grow slightly faster than the U.S.

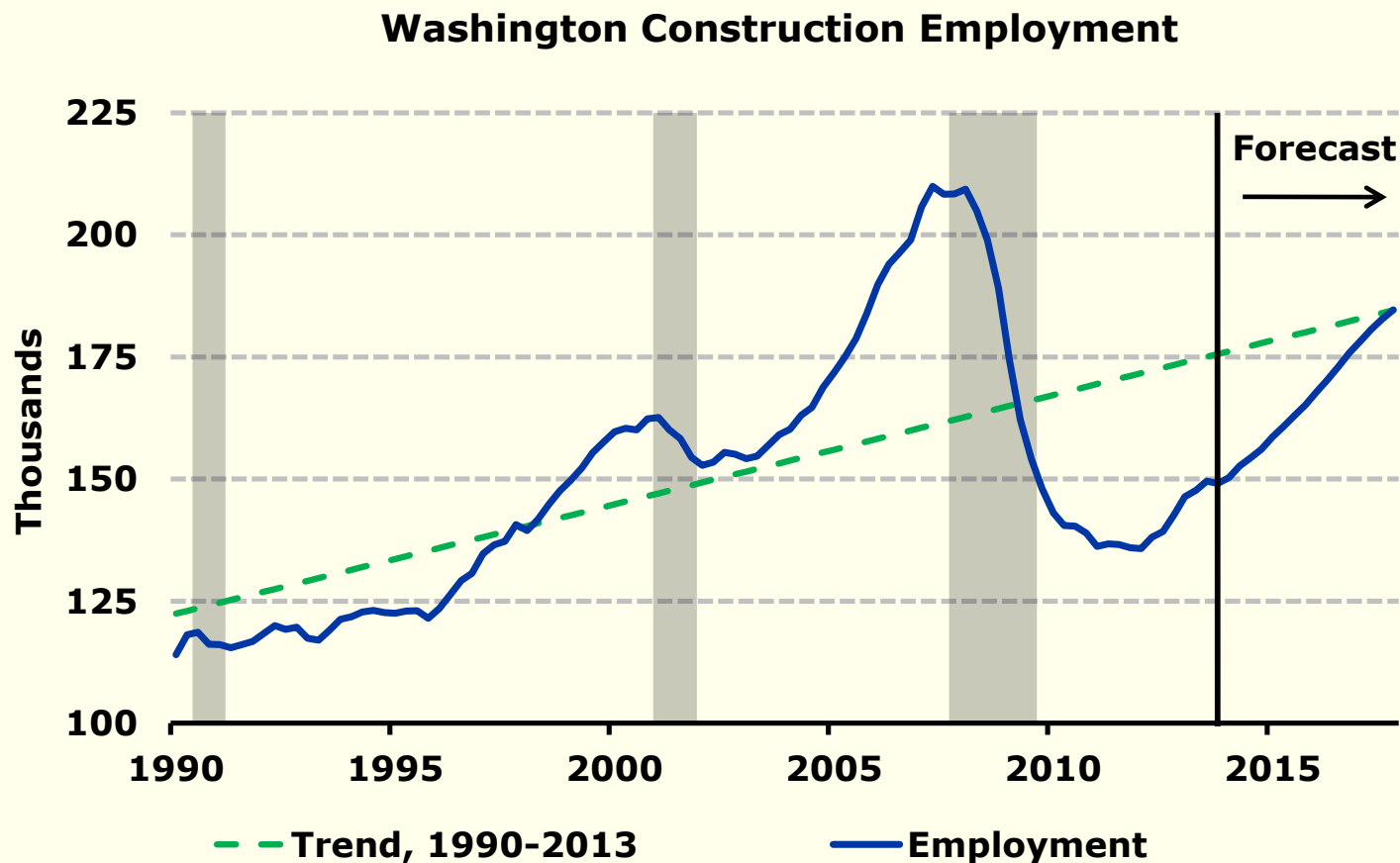


Source: ERFC November 2014 forecast; historical data through 2014Q2

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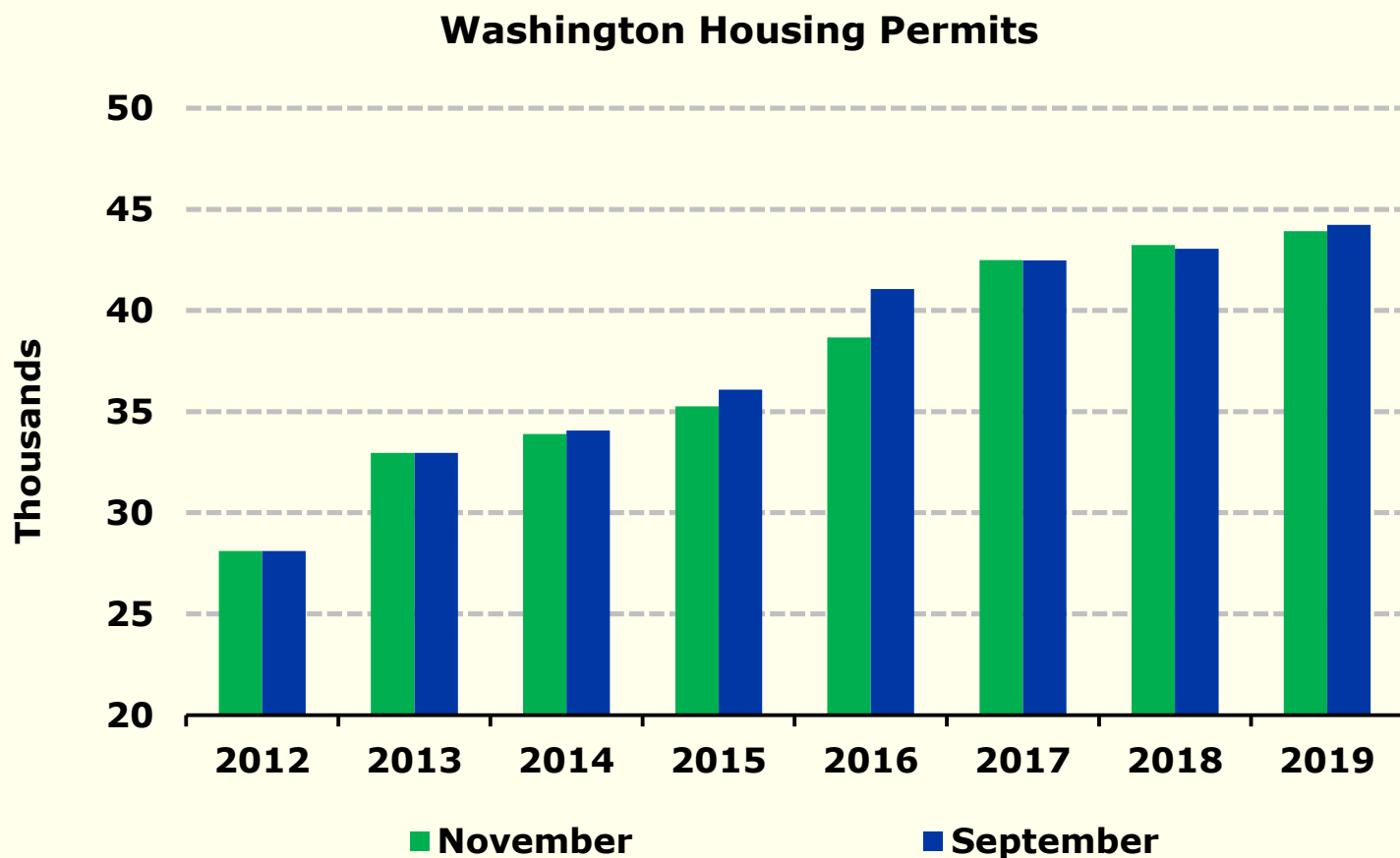
# Washington construction employment is recovering



Source: ERFC November 2014 forecast; historical data through 2014Q4



# Washington housing permits forecast is similar to the September forecast

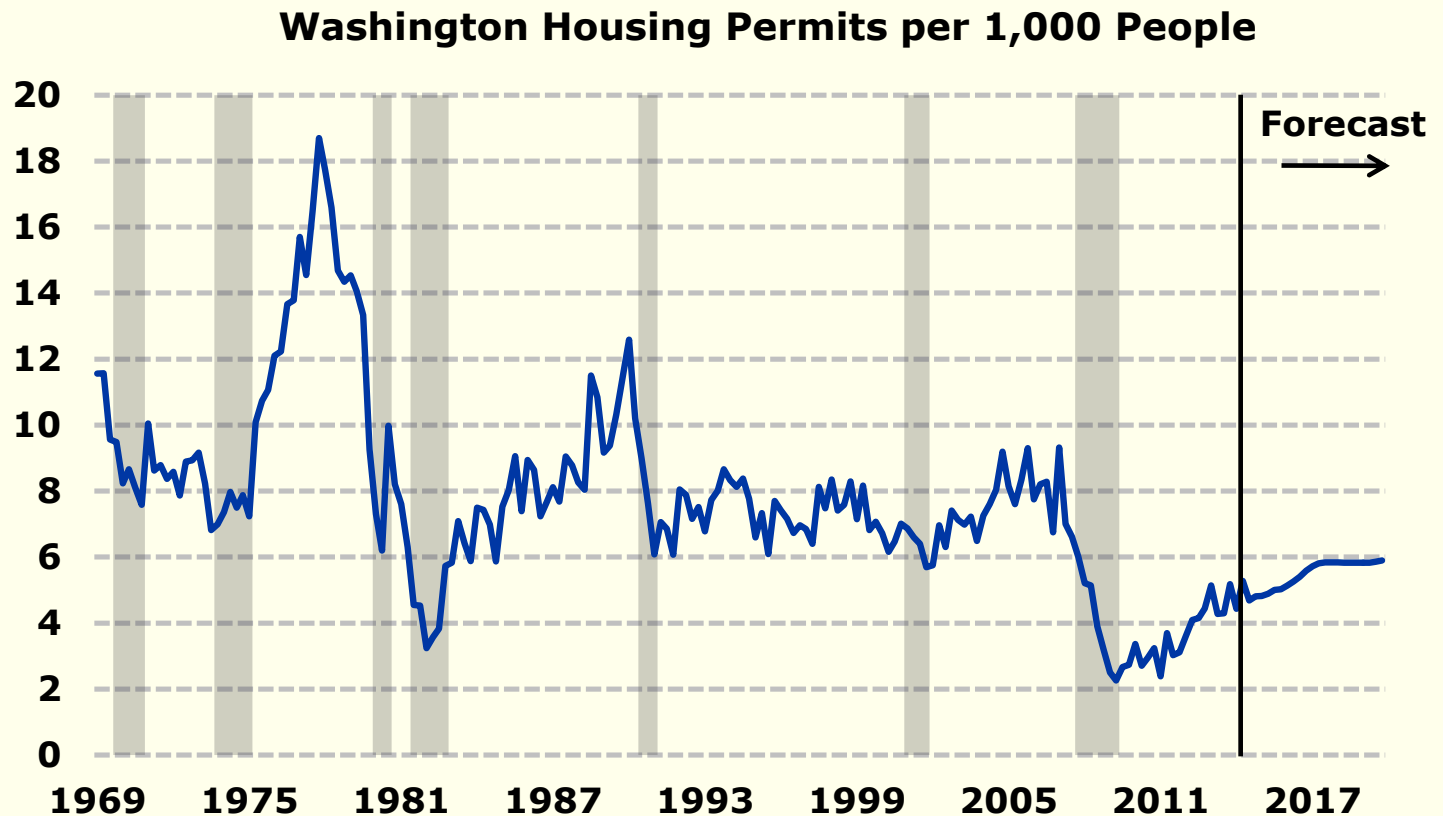


Source: ERFC November 2014 forecast; historical data through 2013

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# Housing permits relative to population will still be below historic levels in 2019



Source: U.S. Census Bureau, ERFC November 2014 Forecast; historical data through 2014 Q3

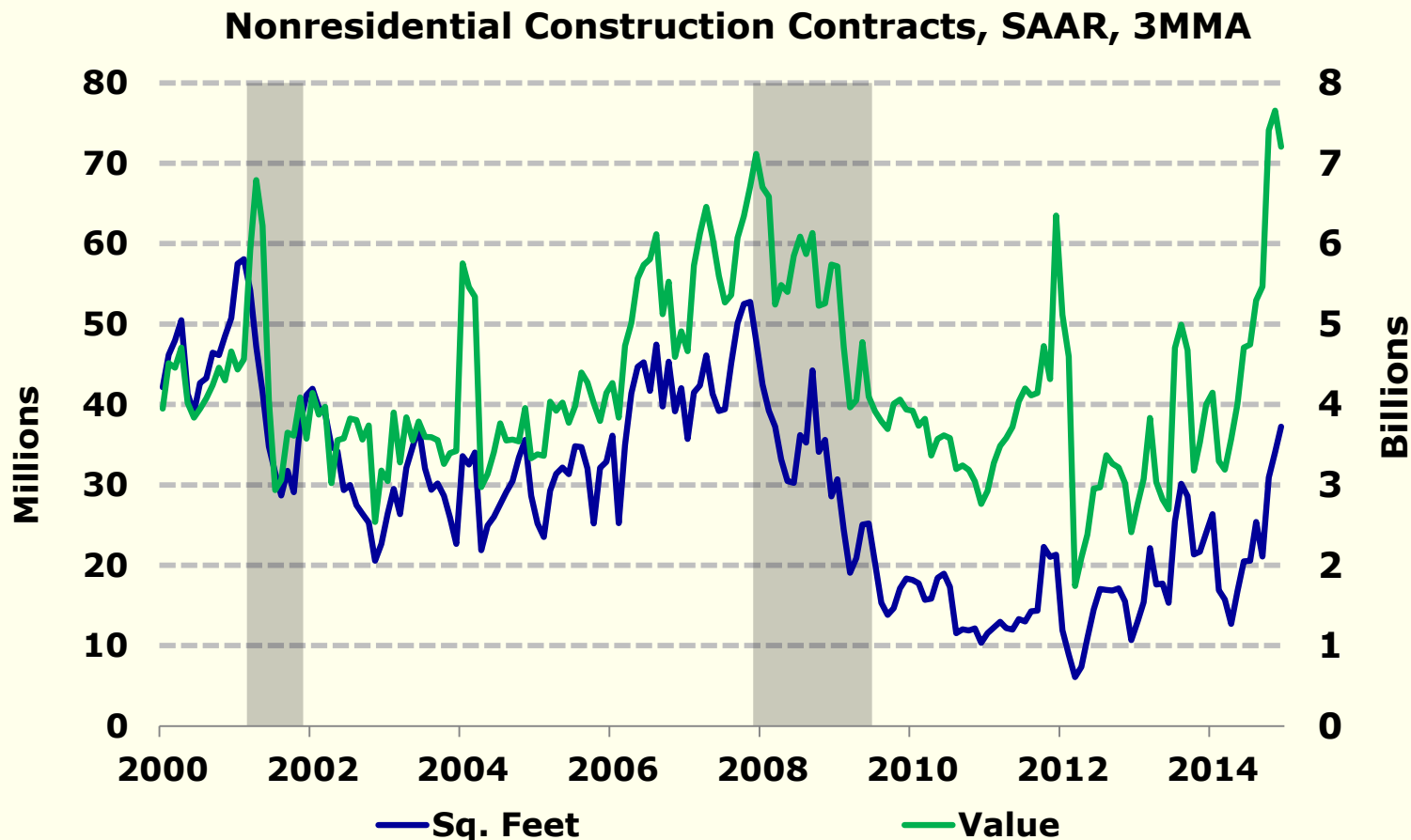
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# Contract data indicates an increase in non-residential activity

Non-Residential square footage is up 55%, and value is up 80% year over year (3mma).



Source: Dodge, ERFC; data through December 2014

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# REET activity continues to be elevated by large commercial sales

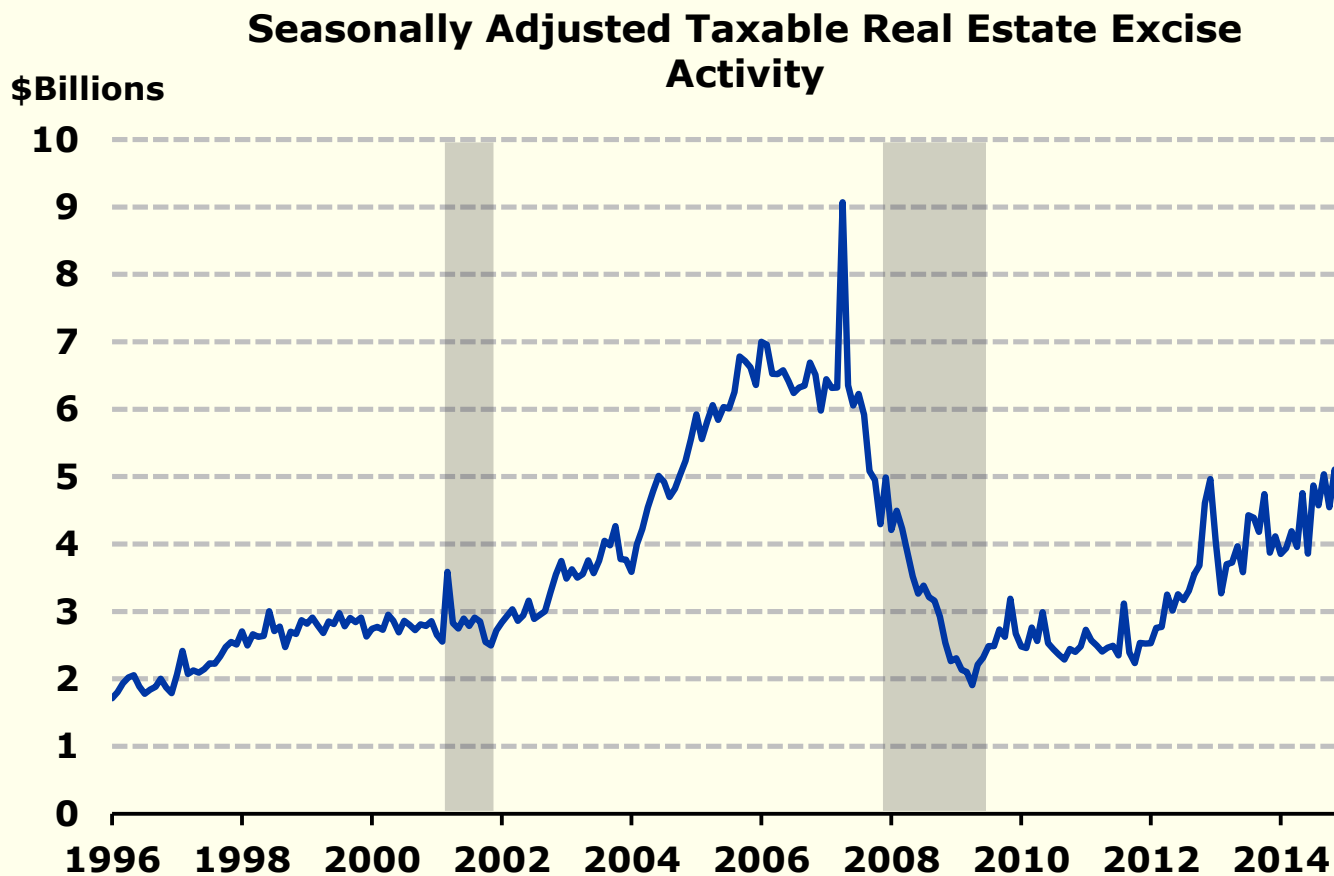
Residential prices have increased but total taxable residential sales are being held back by lack of inventory.

Much of the strength in REET activity for the last two years has been in large commercial sales. Sales of property worth \$10 million or more totaled \$1.1 billion in December

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Source: ERFC; Monthly data through December 2014 preliminary



# Conclusion

- The economic forecast is quite similar to September's forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Washington's economy will continue to be slightly stronger than the nation as a whole
- The level of uncertainty in the baseline remains high, with greater risks on the downside than on the upside



# Questions



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